

EXOTIC MORTGAGES

CHAPTER 13 BANKRUPTCY

FORECLOSURE AUCTION

DEFAULT JUDGMENT

2/28 LOANS

80/20 LOAN

LIS PENDER

NOTICE OF

ORDER OF

SUMMARY

BALLOON PAYMENT

NOTICE OF DEFAULT

TEASER RATES

PREPAYMENT PENALTIES

UPSIDE DOWN

PREDATORY LENDING

ADJUSTABLE RATE MORTGAGES

# Louisville's Foreclosure Crisis



*A study of loan elements and Property Valuation  
information for all foreclosures in Louisville  
Metro from January 1 to June 30, 2007  
and interviews with 26 individual households  
in foreclosure*



Metropolitan Housing Coalition

## TABLE OF CONTENTS

<b>Letter to MHC Members Outlining the Problem .....</b>	<b>2</b>
<b>The Background of the Study .....</b>	<b>4</b>
<b>The Foreclosure Process .....</b>	<b>5</b>
<b>The 2007 Study .....</b>	<b>7</b>
<b>Part I – Courthouse and Property Valuation     Assessment Research     Impact of Foreclosures across     Jefferson County .....</b>	<b>7</b>
Impact of Foreclosures to Neighborhoods ....	13
A Snapshot of Foreclosures in 3 Metro Areas .....	15
<b>Part II –The Foreclosure Survey     Impact of Foreclosure to 26 Households.....</b>	<b>19</b>
<b>Call to Action .....</b>	<b>26</b>
<b>Key Definitions .....</b>	<b>29</b>
<b>Acknowledgements .....</b>	<b>31</b>

Terms printed in *blue italics* within this report are expanded upon in the definitions section of this report. Additional maps, tables and information on foreclosures that could not be included in this report because of space limitations, can be found on the MHC website at [www.metropolitanhousing.org](http://www.metropolitanhousing.org).

## A LETTER TO MHC MEMBERS

### *Outlining the Problem*



WE ARE FACING AN AFFORDABLE  
HOUSING CRISIS OF ALARMING  
PROPORTION.

Between January 1  
and June 30, 2007 nearly 1,700  
foreclosures were filed in Jefferson

County, KY. Based on these first 6 months, we project that foreclosures will directly affect 3,400 homeowners in Louisville Metro during 2007. The Kentucky Office of Financial Institutions estimates that in just a single year, 1.9% of all homeowners in the state will reach the point where legal action is started to repossess their homes. As staggering as they are, these figures do not begin to address the number of families struggling to make house payments or who are currently in default, but have not reached the point of legal action. These numbers also exclude households whose foreclosure actions began in previous years but have now reached the final steps in the process – losing their homes through orders of sale and having their homes auctioned at the courthouse.

### *The Impact of Foreclosures*

Clearly, this is a crisis affecting large numbers of families. Foreclosures threaten household stability as families experience the loss of their homes, the loss of their neighborhoods, the loss of their financial assets and the loss of their access to credit. The foreclosure process is economically and emotionally traumatic. Because of its “taboo” nature, families are often reluctant to discuss their situations with others until it’s too late to rescue their homes from foreclosure. As a community, we need to ask how we can promptly reach these families in crisis and help them regain stability.

The foreclosure crisis is eroding neighborhood stability and destabilizing our entire community as thousands of Louisville families move or are evicted from their homes. Growing numbers of neighborhoods in Louisville and around the country are reeling from the impact of foreclosures as looters strip vacant houses of anything of value and sell it for scrap. A Louisville woman we interviewed from the California neighborhood described how looters were spotted dragging the copper piping from her former home just days after she lost her home

to foreclosure. The expense to put these derelict structures back in working order often exceeds their worth. Consequently they can remain empty for years, and have a negative impact on neighboring property values and tax revenues. In addition to the economic impact of foreclosure, remaining homeowners in high foreclosure areas become susceptible to falling housing values and rising crime. As foreclosures rise dramatically in specific areas, we have to ask, what number of vacant foreclosed homes will it take in other Louisville neighborhoods to tip their stability and put them at risk?

Foreclosures are weakening housing markets and sale values in cities across the country. The overall national decline for housing prices in 2007 was 3.2%. Louisville mirrored this trend with a less dramatic year-over-year median sales price decline of .4% in the 3rd quarter of 2007 per the National Association of Realtors. Individual neighborhoods are beginning to experience more severe drops or stagnating prices, especially some of the newer developments in the suburbs. Louisville has experienced an increase in foreclosures over a period of eleven years, and in 2007 has experienced an alarming increase in suburban foreclosures. As a community, we need to be concerned about the potential for dropping values and engage in strategies to limit losses.

## The Study

*Louisville's Foreclosure Crisis* contains the findings of a groundbreaking study that documents the elements of current foreclosures in Louisville Metro through two different components:

- ▶ a study of the loan elements from 1,699 public foreclosure records filed between January 1 and June 30, 2007 and related property valuation assessment information, and
- ▶ in-depth interviews with 26 demographically distributed households in foreclosure during that same period.

These voluntary in-depth interviews with households across Louisville Metro produced some striking results. With few exceptions, our survey participants' stories were complex and usually involved a series of events leading up to the foreclosure action. Loss of

income, medical expenses and health issues, as well as unclear and/or questionable mortgage lending practices were some of the primary circumstances resulting in their loans' default. Many of these homeowners also found the servicing of their loans counter-productive to re-stabilizing their mortgages, with unreturned calls, high fees and generalized confusion by the lenders. Perhaps the most shocking piece of information we learned from the 26 households who participated in our survey, was that **14 did not have homeowners insurance and/or property taxes included in their monthly mortgage payments.** Even more alarming, most of those 14 did not learn this until they were at the closing table! Our report gives a synopsis of these and other real-life discoveries about foreclosure at the household level in Louisville, Kentucky.

The report also summarizes the information we obtained on Jefferson County foreclosures from a city-wide and neighborhood perspective including snapshots of an urban neighborhood, a suburban neighborhood and a 6th class city. Louisville's Foreclosure Crisis includes a step-by-step primer of the foreclosure process here in Jefferson County. Most importantly, this report outlines MHC's suggestions for legislative reforms, homeownership protection programs and neighborhood planning efforts that can stabilize homeowners and our community.

A special thanks goes to the visionary leadership of the Making Connections Network, the Kentucky Housing Corporation and the MHC board for making this comprehensive two-part study possible.

Sincerely,



Cathy Hinko  
Executive Director  
January 10, 2008

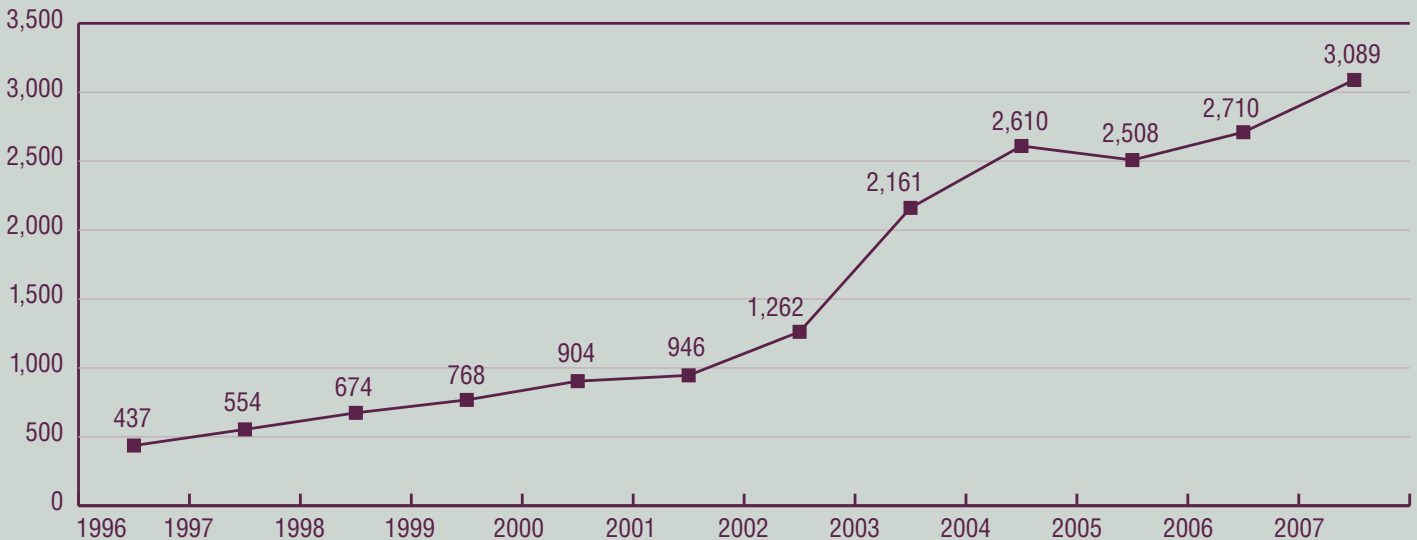


## The Background of the Study

Since 2003, the Metropolitan Housing Coalition has tracked the increasing rate of foreclosures in the Louisville and Jefferson County area. Our concerns were first spurred by a alarming growth in home mortgage *orders of sale*.

### Foreclosures over the Last Decade

From 1996 to 2007 the annual number of mortgage foreclosures for which there were *orders of sale* in Louisville Metro has grown over 700% – from 437 in 1996 to 3,089 in 2007. (For years prior to 2002, data reflects combined numbers for Jefferson County and the City of Louisville.) From 2006 to 2007 alone there was an increase of 379 or 14%.



The precipitous increase was explored in depth in the *2004 State of Metropolitan Housing Report*. In 2005, a cross-industry group, including bankers, court administrators, advocates, elected officials and other industry people, formulated a set of recommendations, published by MHC as *Homeownership at Risk: Our Community Responds to Home Foreclosures*. This report included these three action areas:

- ▶ to collect more information,
- ▶ to provide more community education, and
- ▶ to engage in legislative reform to control egregious practices that fail to protect consumers.

Since then, MHC has continued to work on all three fronts. *Louisville's Foreclosure Crisis* is a culmination of these efforts and presents current information about a community in crisis. In this report, we also call for educational interventions, broad-based community organizing around the issue and legislative reforms.

### The 2005 Study

In 2005, MHC worked with the Community Resource Network (CRN) and the *Making Connections Network* to understand foreclosures by conducting a data scan of court files. CRN looked at every foreclosure that had an *order of sale* between January 1 and June 30, 2005 (see **The Foreclosure Process** flowchart and **Key Definitions** for a description of the stages in the foreclosure process and an explanation of foreclosures *filed* versus foreclosures with *orders of sale*). The court records contained the location of the property, interest rates, whether the mortgage had a fixed or adjustable rate, whether there were provisions for prepayment penalties or balloon payments, and several other pieces of information. In 2005, the foreclosure problem appeared to be one resulting from refinancing at high interest rates with a clustering of these loans in urban African American neighborhoods in West Louisville.



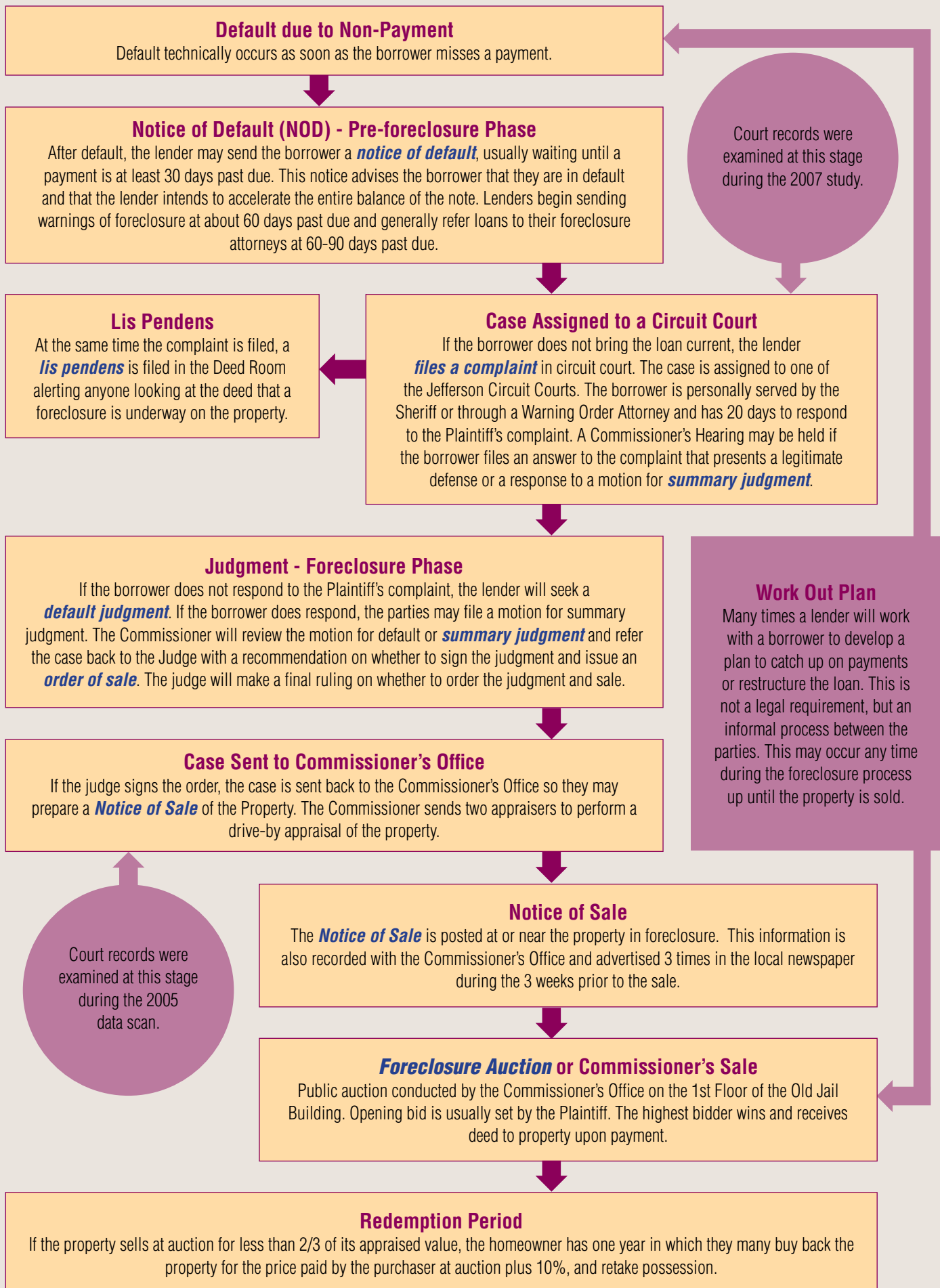
## The Foreclosure Process

Mortgage foreclosures involve a complicated series of legal actions, and each state applies its own specific laws. The homeowner and/or his/her legal representative can take steps at any time during foreclosure to help save the owner's home from repossession and the owner from eviction and future credit problems. The longer into the process however, the fewer choices there are for the borrower.

Many homeowners have difficulty negotiating the process because they are confused or unaware of their options. Others see the task of getting out of arrears as insurmountable or are hesitant to seek professional assistance because of monetary constraints. This also makes homeowners vulnerable to other stumbling blocks along the way, such as foreclosure rescue scams and other predatory lending practices.

The following flow chart provides a brief explanation of the default and foreclosure process in Jefferson County, Kentucky. Additional explanations of terms can be found in the **Key Definitions** section of this report. Please note that the 2005 data scan was based on *orders of sale* while the 2007 foreclosure data was obtained as close to the *complaint filing* date as possible. This was done in an effort to provide potential survey participants with information that could be useful through the foreclosure process.







# The 2007 Study

## Part I – Courthouse & Property Valuation Assessment Research Impact of Foreclosures Across Jefferson County

For the first part of our study, over 38 pieces of information from courthouse records were examined to provide us with the location, loan characteristics and default history of every *foreclosure filed* in Jefferson County during the first six months of 2007. We then retrieved additional details on each address in foreclosure from property valuation assessment records, which further expanded our database of property and ownership characteristics. Finally, we geographically located each home by Metro Council District, zip code and neighborhood. A complete list of the data that was retrieved from files at the Jefferson Circuit Court Clerk's office, the LOJIC driven MyLouisville.com website and the Jefferson County Property Valuation Administrator's website is available at [www.metropolitanhousing.org](http://www.metropolitanhousing.org).

### Number of Foreclosures

Our review of courthouse records resulted in 1,699 unduplicated households with mortgages that went into foreclosure between January 1 and June 30, 2007. (Multiple *foreclosure complaints* by the same lenders were sometimes filed for the same properties.) Per month, the number ranged between 239 and 317, or an average of 283, but there were no significant upward or downward fluctuations during the 6-month period. At this rate, Jefferson County was on a trajectory to reach 3,400 *foreclosure complaints filed* by the end of 2007. MHC only anticipates this trend getting worse as the interest rates continue to change for adjustable mortgage instruments.

While an exact comparison cannot be made between the 2007 and 2005 data because the data was obtained

at different stages of the foreclosure action, if we look at the number of foreclosures that had *orders of sale* in 2005 by month, there was a range of 110 to 149, with an average of 129 per month.

### Location and Distribution of Foreclosures

Because of the results of the 2005 data scan, which was conducted and analyzed by the Community Resource Network, we expected to see foreclosures concentrated in the fragile lower income and minority urban neighborhoods again in 2007. While MHC still found focused clusters of foreclosures in the western portion of the city (Shawnee - 66, Portland - 42, California - 39, Park Hill - 36 and Russell - 25), we also began to find large numbers of foreclosures outside the urban core in suburban areas - (Pleasure Ridge Park- 238, Okolona - 147, Jeffersontown - 94 and Shively - 77.) It was disturbing to see just how pervasive the foreclosure problem was and how quickly it has grown since the 2005 study. (For additional information see the **Impact of Foreclosures to Neighborhoods** section of this report.)

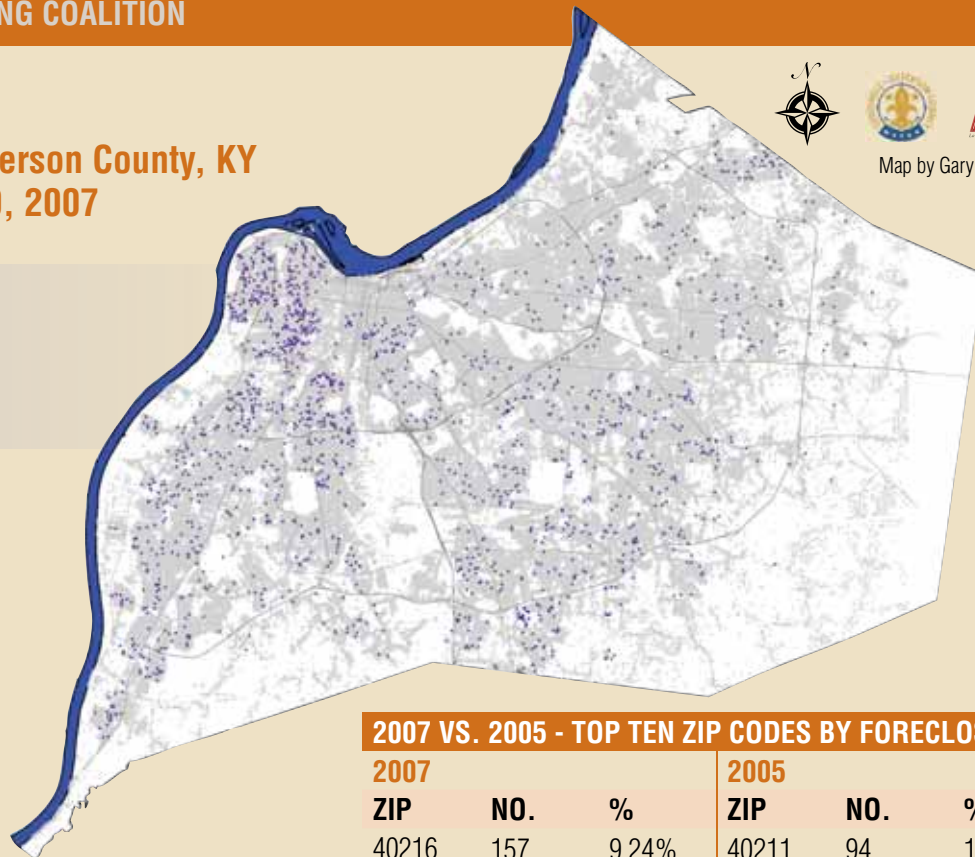
For maps and information on foreclosures by Metro Council District, see the MHC website: [www.metropolitanhousing.org](http://www.metropolitanhousing.org)



Map by Gary M. Cusick, PhD

## Foreclosures in Jefferson County, KY January 1 – June 30, 2007

- Foreclosures
- All Addresses
- Ohio River



### 2007 VS. 2005 - TOP TEN ZIP CODES BY FORECLOSURES

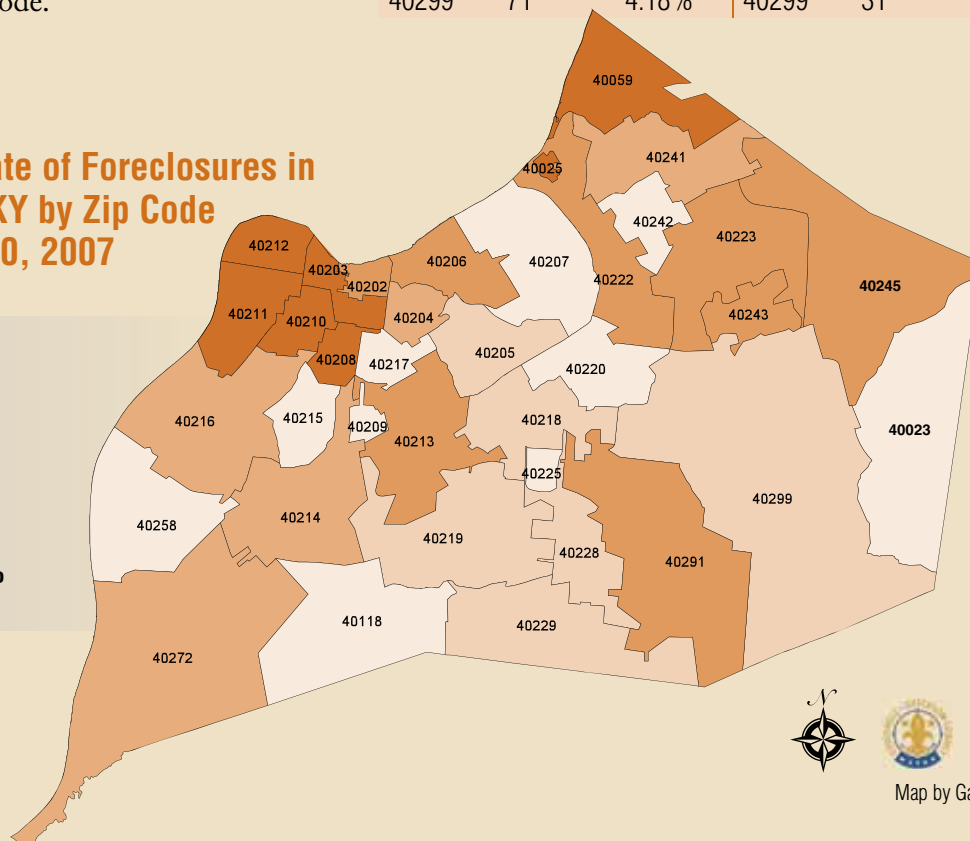
2007			2005		
ZIP	NO.	%	ZIP	NO.	%
40216	157	9.24%	40211	94	12.14%
40211	127	7.47%	40216	63	8.14%
40272	114	6.71%	40212	50	6.46%
40214	105	6.18%	40215	49	6.33%
40210	90	5.30%	40272	48	6.20%
40219	83	4.89%	40210	47	6.07%
40229	82	4.83%	40219	43	5.56%
40212	81	4.77%	40214	37	4.78%
40258	72	4.24%	40258	35	4.52%
40299	71	4.18%	40299	31	4.01%

### Foreclosures by Zip Codes

While there was definitely a shift in the neighborhoods with the highest numbers of foreclosures, the two zip codes with the highest number of foreclosures remained the same, just switching positions from 1st to 2nd (see table). All but zip code 40229 had appeared in the top ten in 2005. The following map indicates the median interest by zip code.

### Median Interest Rate of Foreclosures in Jefferson County, KY by Zip Code January 1 – June 30, 2007

- 0% – 7.36%
- 7.36% – 7.5%
- 7.5% – 7.8%
- 7.8% – 8.13%
- 8.13% – 8.88%



Map by Gary M. Cusick, PhD



## Loan Characteristics

### Refinanced Loans

We compared the original acquisition date to the closing date of the loan to determine if the loan in foreclosure was refinanced. For purposes of the study, the loan was counted as refinanced if its closing date was more than 30 days after the original acquisition date. Using this measure, 876 or 51.6% of loans in foreclosure in 2007 were refinanced. This is remarkably lower than the 2005 data which indicated that 621 or 80.2% of the orders for sale were refinanced loans.

### Fixed versus Adjustable Rate Mortgages

In 2007, the total number of fixed rate mortgages in foreclosure was 902 or 53.09%, and the median interest rate was 7.1% with a range of 0% to 17.3%. Twenty of these loans had interest rates below 5% and 9 of these were at 0%. During 2005, the median interest rate for fixed rate loans was 8.0% with a range of .1% to 15% during 2005.

In 2007 there was a significant increase in the number of foreclosures with adjustable rates – at 45.62% of the *foreclosures filed* compared to 26.6% of foreclosures with *orders of sale* in 2005. The median for adjustable rate loans in 2007 was 8.8% with a range of 0% to 15.8%. Thirty-six adjustable rate mortgages in 2007 had interest rates below 5% including 13 that were at 0%. These lower interest rates could be an indicator of temporary introductory or *teaser rate* loans. During 2005 the median interest rate for adjustable rate loans was 9.0% with a range of .1% to 15%. It is also worth noting that 60.7% of adjustable rate loans also were coupled with prepayment penalties.

#### FORECLOSURES WITH FIXED VERSUS ADJUSTABLE RATE MORTGAGES

##### 2007

Type of Mortgage	Number of Foreclosures	% of Total Foreclosures	Median Interest Rate
Fixed	902	53.09%	7.1%
Adjustable	775	45.62%	8.8%
Missing	22	1.29%	NA

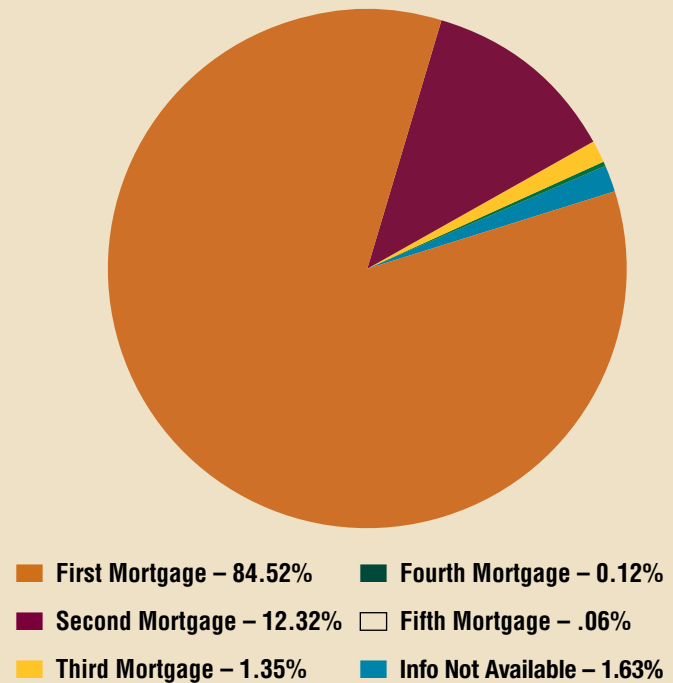
##### 2005

Type of Mortgage	Number of Foreclosures	% of Total Foreclosures	Median Interest Rate
Fixed	556	71.08%	8.0%
Adjustable	206	26.60%	9.0%
Missing	12	1.60%	NA

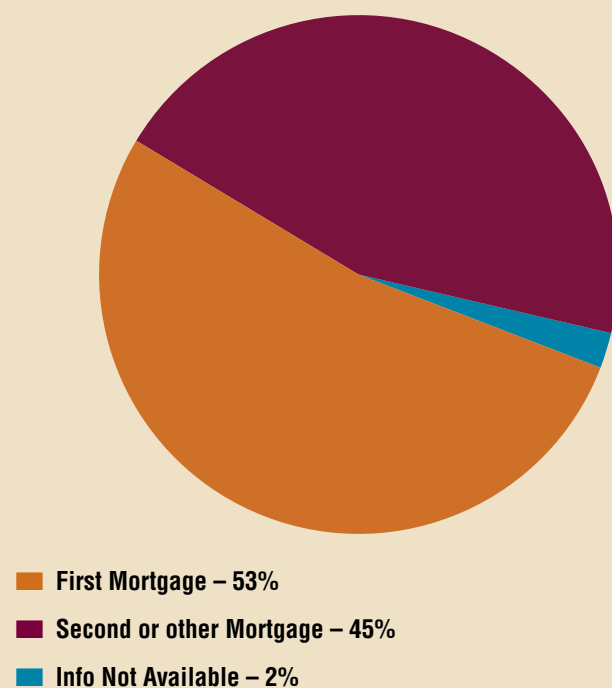
### 1st versus 2nd or other Mortgages

In 2007, the clear majority of foreclosures filed in Jefferson County were 1st mortgages, with 1436 or 84.52%. This differs considerably from 2005, when 410 or 53% of the foreclosures with orders of sale were 1st mortgages, and 349 or 45.1% were 2nd mortgages.

#### Mortgage in Foreclosure 2007



#### Mortgage in Foreclosure 2005



## Balloon Payment

There was a small decrease in the number of balloon payments in 2007 – 67 or 3.9% of foreclosures filed, compared to 41 or 5.3% in 2005.

## Interest-Only/Interest-First

A relatively small number of foreclosures in 2007 (94 or 5.5%) were interest only or interest first loans. This information was not available for 2005.

## Prepayment Penalties

There appears to be a significant increase in the number of loans with prepayment penalties from the previous data scan – 645 or 37.96% in 2007 compared to 189 or 24.4% in 2005. The median interest for loans with prepayment penalties in 2007 was also higher than for those without prepayment penalties – 8.9% compared to 7.0%. Of the 645 loans with prepayment penalties, 470 or 72.9% also had adjustable interest rates. Additional information on prepayment penalties terms can be found on the MHC website.

## Time from Closing Date to Default Date

In both 2007 and 2005 the majority of mortgages in foreclosure appeared to be newer loans. In 2007, 40.14% of the loans went into foreclosure in 2 years or less, 70.8% in less than 5 years and 92.7% within 10 years. In 2005, 52.1% went into foreclosure within 2 years or less, 78.2% in less than five years and 95.7% in less than 10 years.

## Lenders

In the 2007 study MHC saw many of the same lenders that had been in the top ten during 2005. For additional information on lenders and plaintiffs, including those with interest rates higher than 7.6% see the MHC website.



### FORECLOSURES WITH AND WITHOUT PREPAYMENT PENALTIES

#### 2007

Prepayment Penalties	Number of Foreclosures	% of Total Foreclosures	Median Interest Rate	Number with Fixed Rates	Number with Adjustable Rates
Yes	645	37.96%	8.9%	175	470
No	1054	62.04%	7.0%	729	305
Missing	0	NA	NA	NA	NA

#### 2005

Prepayment Penalties	Number of Foreclosures	% of Total Foreclosures	Median Interest Rate	Number with Fixed Rates	Number with Adjustable Rates
Yes	189	24.42%	NA	NA	NA
No	575	74.29%	NA	NA	NA
Missing	10	1.29%	NA	NA	NA

## Ownership Characteristics

### Length of Ownership

At least for the last several years, it appears that homeowners with adjustable rates got into trouble with their loans sooner than those with fixed rate

mortgages. The following table reflects the time between when owners first purchased their home per PVA records and the date they went into default.

#### TIME PERIOD BETWEEN ACQUIRING PROPERTY AND DEFAULTING ON LOAN

##### ADJUSTABLE VERSUS FIXED RATE MORTGAGES

Number of Months or Years	All Cases	Percent of All Cases	Adjustable Rate Loans	Percent of All Cases	Fixed Rate Loans	Percent of All Cases
0-5 Months	97	5.71%	61	3.59%	36	2.12%
6-11 Months	120	7.06%	83	4.89%	37	2.18%
1-2 Years	351	20.66%	219	12.89%	132	7.77%
3-4 Years	267	15.72%	118	6.95%	149	8.77%
5-6 Years	208	12.24%	68	4.00%	140	8.24%
7-8 Years	148	8.71%	54	3.18%	94	5.53%
9-10 Years	101	5.94%	32	1.88%	69	4.06%
11-12 Years	90	5.30%	33	1.94%	57	3.35%
13-14 Years	55	3.24%	17	1.00%	38	2.24%
15-16 Years	34	2.00%	8	0.47%	26	1.53%
17-18 Years	38	2.24%	16	0.94%	22	1.29%
19-20 Year	26	1.53%	12	0.71%	14	0.82%
21-25 Years	22	1.29%	8	0.47%	14	0.82%
26-30 Years	37	2.18%	12	0.71%	25	1.47%
31-45 Years	42	2.47%	17	1.00%	25	1.47%
46 or Greater	6	0.35%	2	0.12%	4	0.24%
Not Available	57	3.35%	15	0.88%	42	2.47%
	1699	100.00%	775	45.62%	924	54.38%

### Investment Properties

Using PVA records to compare the property owners mailing address to the actual property address, there were 240 properties or 14.13% of foreclosures in 2007 that were not occupied by the owners and could be investment properties. The neighborhoods with the highest numbers of possible investment properties in foreclosure were:

- ▶ Shawnee 22 or 33.3% of the total foreclosures in the neighborhood
- ▶ California 20 or 51.3%
- ▶ Park Hill 19 or 52.8%
- ▶ Portland 19 or 46.3%
- ▶ Pleasure Ridge 17 or 7.1%
- ▶ Russell 14 or 56%
- ▶ Jeffersontown 14 or 15%
- ▶ Parkland 11 or 44%

Alternatively, using a document called a *1-4 Family Rider* within the complaint records as the indicator, there were 146 properties or 8.59% that appeared to be investment properties.

The neighborhoods with the highest numbers were:

- ▶ Shawnee 16 or 24.2%
- ▶ California 15 or 38.5%
- ▶ Park Hill 12 or 33.3%
- ▶ Portland 12 or 29.3%
- ▶ Russell 10 or 40%
- ▶ Okolona 8 or 5.4%

In 2005, using the *1-4 Family Rider* as an indicator, 75 or 9.7% of foreclosures appeared to be investment properties.



## Housing Stock Characteristics

Several other pieces of information on the 1,699 homes in foreclosure were retrieved from the Property Valuation Administrators website including:

### Year Home Built

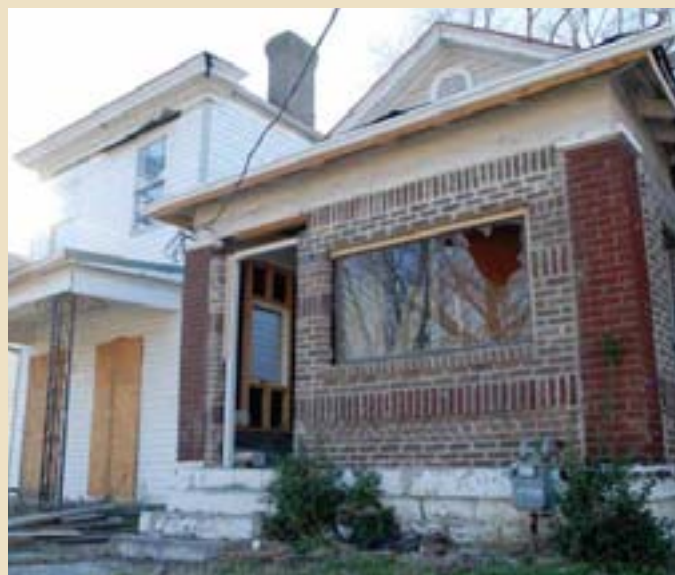
The year the properties in foreclosure were built ranged from as early as 1860 to as recent as 2006. A significant number were relatively new homes built since 2000 (203 or 12%.) See MHC's website for a chart of the year homes were built.

### Current Property Valuation Assessment and Original Acquisition Price of Home

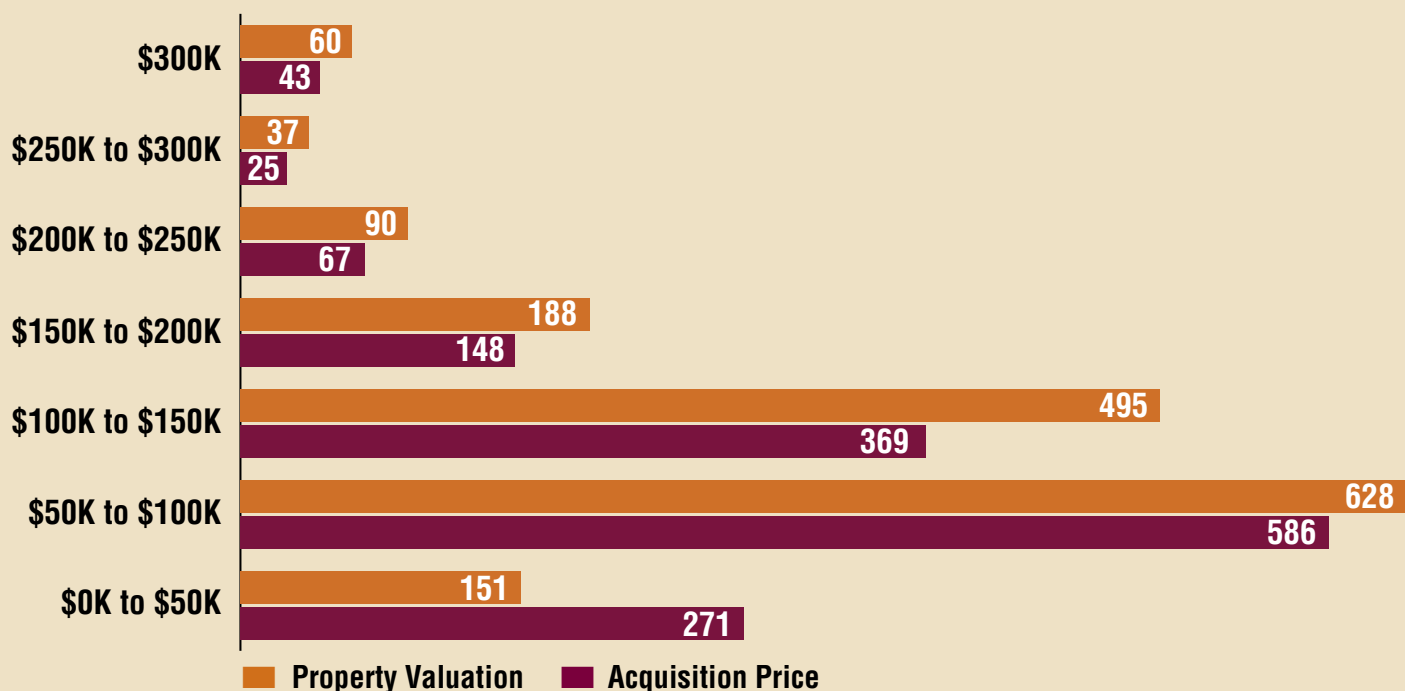
While property valuation assessments generally differ from the actual market value of a home, (unless the property was recently sold, which in some cases such as distressed sales, sales of partial interest or transfers between family members, still might not reflect its true market value), it does provide us with a basis of comparison. According to PVA records, nearly 75% of the homes in foreclosure in Jefferson County were assessed at \$150,000 or below. The median sales price of existing single-family homes in the Louisville Metropolitan area at the end of our study period was \$139,300 (per the National Association of Realtors

2nd quarter reports.) Using this median sales price as a marker, 1,199 or 70.6% of the homes in foreclosure had PVA assessment values below this figure.

The chart below highlights how the ranges of PVA assessment values and the ranges of original acquisition prices had a similar pattern of distribution. Using either method, we see that the majority of foreclosures are below \$150,000, clearly indicating that Louisville's foreclosure crisis is also one of its leading affordable housing challenges.



## Ranges of Acquisition Price and Ranges of Property Valuation of Foreclosures



## Impact of Foreclosures to Neighborhoods

In addition to tracking foreclosures that were filed by Metro Council District and zip code, MHC also looked at data on the level where many people feel their strongest sense of connection – neighborhood. (Note: throughout this section, the term neighborhood also refers to census designated place and municipality.) Based on the data scan of court records in 2005 and other previous reports, MHC expected to find high rates of foreclosures in neighborhoods with the greatest number of low-income and minority families, and unfortunately this was the case. Several neighborhoods in western Jefferson County still showed some of the highest concentrations of foreclosures including Shawnee, California, Chickasaw, Portland, Park Hill, Russell and Parkland. However, our weekly examination of courthouse data also began to reveal other areas that were hit hard, including several middle-income and affluent neighborhoods.

Nearly every neighborhood across Jefferson County showed some degree of impact. The following table summarizes the number and the median interest rate of loans in foreclosure for each neighborhood during the six months of our 2007 study. Note that of the 105 neighborhoods listed, 61 (58%) had median interest rates at or above 7.5%.

For comparison purposes, the table also provides 2000 Census data on the total housing units in each neighborhood, with sub-categories of owner-occupied and rental units.\* (Other sub-categories such as vacant housing, units for sale, seasonal or occasional use were not included.) While the number of units in a neighborhood may have changed since the 2000 Census, the side-by-side comparison is useful in gauging the overall impact of foreclosures as a measure of housing density.

### Number of Foreclosures and Median Interest Rates by Neighborhood, Census Designated Place or Municipality\*

Neighborhood	2007 Foreclosure Study		2000 Census Data			Neighborhood	2007 Foreclosure Study		2000 Census Data		
	Number of Foreclosures	Median Interest Rate	Total Housing Units	Owner Occupied	Renter Occupied		Number of Foreclosures	Median Interest Rate	Total Housing Units	Owner Occupied	Renter Occupied
Algonquin	21	8.78	2352	1100	1108	Cloverleaf	6	7.71	1416	1269	117
Anchorage	6	8.44	750	709	20	Coldstream	2	8.05	325	394	28
Auburndale	10	8.63	1172	895	245	Crescent Hill	11	8.31	3713	1885	1597
Audubon	6	7.31	634	524	95	Deer Park	4	7.98	1473	942	459
Avondale/ Melbourne Heights	3	7.50	977	739	209	Dixie Suburban	9	9.12			
Bashford Manor	10	7.63	2522	899	1348	Douglass Hills	4	7.75	2553	1670	758
Beechmont	25	7.00	4026	2455	1369	Eastwood	15	7.63			
Beechwood Village	1	5.88	542	464	68	Edgewood	1	8.99	3149	2903	196
Belknap	5	6.95	1545	1250	240	Fairdale	50	7.36	3059	2319	629
Bellemeade	1	9.60	431	388	24	<i>Fern Creek</i>	<i>63</i>	<i>7.50</i>	<i>7011</i>	<i>5081</i>	<i>1571</i>
Bon Air	16	7.00	3212	2029	1021	Fincastle	1	0.00	301	265	30
Bonnycastle	2	8.50	1195	571	567	Gardiner Lane	1	6.38	508	422	77
Bowman	4	9.89	907	529	337	Germantown	14	7.38	2026	1157	730
Brownsboro/Zorn	2	6.70	1134	883	199	Graymoor/ Devondale	2	6.05	1157	821	313
<i>Buechel</i>	<i>40</i>	<i>7.10</i>	<i>3505</i>	<i>1705</i>	<i>1615</i>	Hallmark	3	7.38	416	290	104
Butchertown	1	7.85	496	154	262	Harrods Creek	6	8.75			
<i>California</i>	<i>39</i>	<i>8.22</i>	<i>2382</i>	<i>858</i>	<i>915</i>	Hawthorne	2	7.75	873	731	129
Camp Taylor	13	9.50	967	692	219	Hayfield/Dundee	3	6.75	1167	1017	124
Cherokee Gardens	1	7.25	359	341	4	Hazelwood	4	7.25	1622	407	1095
Chickasaw	38	8.54	3110	1979	838	Hickory Hill	1	6.88	53	51	1
Clifton	1	11.75	1915	939	837	Highlands	4	8.44	850	364	413
Clifton Heights	9	7.99	2963	774	1987	Highlands/Douglas	2	8.25	1641	1007	554

Continued on next page

Continued from previous page

Neighborhood	2007 Foreclosure Study		2000 Census Data			Neighborhood	2007 Foreclosure Study		2000 Census Data		
	Number of Foreclosures	Median Interest Rate	Total Housing Units	Owner Occupied	Renter Occupied		Number of Foreclosures	Median Interest Rate	Total Housing Units	Owner Occupied	Renter Occupied
<i>Highview</i>	67	7.75	6183	4737	1187	<i>Pleasure Ridge Park</i>	238	7.55	10643	8135	2155
Hikes Point	3	9.55	1813	1315	447	Poplar Level	5	7.75	661	471	159
Hollow Creek	1	11.38	315	306	9	<i>Portland</i>	41	8.23	5332	2410	2200
Houston Acres	2	7.13	217	195	15	Prestonia	5	6.88	685	537	124
Hurstbourne	1	8.25	1738	1191	373	Prospect	2	6.25	1847	1609	123
Indian Hills	1	5.88	1111	1048	24	Remainder of City	2	8.38	2866	975	1472
Irish Hill	5	6.80	441	228	182	Rockcreek/ Lexington Rd	1	8.65	825	592	202
Iroquois	21	7.30	2838	2043	795	Rolling Hills	1	3.88	400	273	112
Jacobs	13	7.00	2545	826	1524	<i>Russell</i>	25	8.41	4215	831	2793
<i>Jeffersontown</i>	94	7.50	11177	7367	3251	Schnitzelberg	8	7.25	2094	1429	573
Klondike	5	7.45	2193	1468	676	<i>Shawnee</i>	66	8.75	5445	3210	1749
Lake Dreamland	31	7.64				<i>Shelby Park</i>	9	8.50	1380	413	769
Langdon Place	1	6.38	358	293	65	<i>Shively</i>	77	7.80	6929	4939	2228
Limerick	4	8.01	630	170	379	<i>Smoketown</i>	2	7.08	934	249	516
Lyndon	28	7.99	4934	2004	2516	South Louisville	11	9.10	2202	830	1135
Lynnview	2	9.75	429	362	57	Southland Park	1	NA	759	353	377
McMahan	13	7.40				Southside	5	7.00	1991	675	1247
Merriwether	6	7.13	689	356	263	St Joseph	1	NA	2665	1406	1021
<i>Middletown</i>	47	8.13	2543	1807	584	<i>St Matthews</i>	25	7.25	8537	4045	3933
Minor Lane Heights	4	7.14	494	337	140	Strathmoor Village	1	7.50	267	240	21
Moorland	2	9.04	213	132	74	Taylor/Berry	31	9.00	3244	1817	1139
Murray Hill	3	3.87	311	169	113	Tyler Park	1	9.00	1327	743	498
<i>Okolona</i>	147	7.47	7500	4577	2679	Valley Station	1	6.25	8948	7357	1366
Old Brownsboro Pl	1	6.65	148	146	2	Watterson Park	3	7.19	538	268	236
Old Louisville	9	8.50	7303	954	5502	West Buechel	1	8.95	583	92	462
Other	5					Wilder Park	9	8.13	1280	492	692
<i>Park DuValle</i>	17	8.25	1779	874	697	Windy Hills	2	3.38	1125	1039	37
<i>Park Hill</i>	36	8.90	1795	747	744	Woodlawn Park	1	7.38	435	398	30
Parkland	25	8.57	1945	813	790	Worthington	42	8.25	698	584	79
Parkway Village	2	7.01	313	239	60	Wyandotte	21	7.85	1929	1234	597
Plantation	3	7.63	375	255	113						

**Maroon** - Making Connections Neighborhoods (There were no foreclosures in Phoenix Hill, the 4th Making Connections Neighborhood.)

**Blue** - Other Neighborhoods where survey participants were recruited.

\* Area boundaries were defined per the 2007 Louisville Metro, Kentucky Street Atlas





## ***A Snapshot of Foreclosures in 3 Metro Areas***

To explore the dynamics behind our foreclosure crisis even further, we took an in-depth look at households in foreclosure in one urban neighborhood (California), one suburban neighborhood (Highview) and one municipality (Shively) within Jefferson County (see map on page 16). The three areas were selected to provide a range in racial makeup, income levels, age of housing, property values and relationship to the urban core. The tables on pages 17 and 18 in this section summarize the:

- ▶ number of households in foreclosure by neighborhood or municipality,
- ▶ number of survey participants from each area,
- ▶ current property valuation assessments for loans in foreclosure,
- ▶ length of time between the date owners originally purchased their home and the date they went into default on their loan,
- ▶ time between the closing date of the loan and the date of default,
- ▶ number of properties in foreclosure with refinanced loans determined by comparing the date the loan was secured to the acquisition date ,
- ▶ number of loans in foreclosure that were 1st mortgages as compared to 2nd or 3rd mortgages, and
- ▶ number of fixed versus adjustable rate loans in each area plus additional details by rate type including loans above and below 7.5%, the median interest rate for each loan type as well as the range in rates, and whether they included pre-payment penalties.

Each category is further broken into owner-occupied versus investment properties.

## ***General Overview of California, Shively and Highview***

### ***California – Population 5,313\****

California is a neighborhood in Louisville's urban core bordered by Broadway and Oak, between 9th and 26th Streets. Per 2000 US Census data, the majority of residents were African American (91.3%) and the median household income level was approximately \$18,700\*, less than half of \$39,457, the median household income for Jefferson County.

Our 2007 study shows that the California neighborhood homes were the oldest of the three comparison groups (79.5% built before 1930), and their PVA values were the lowest (82.1% were below \$89,900).

### ***Shively - Population 15,258***

Shively is a 6th class city within Jefferson County bounded by Millers and Bernheim Lanes, 7th Street, I-264 and Rockford Lane. It is considered a first-ring suburb as it lies just outside Louisville's urban core and primarily within I-264. While 2000 Census data showed its residents were predominately white (67.3%), Shively had a significant population of African-Americans (30.3%) and other minority residents (2.4%). Median household income was over twice that of California at \$38,700, but just below the median household income for Jefferson County.

Our 2007 study results indicate that houses in foreclosure in Shively were somewhat newer than those in California (97.4% built between 1931 and 1990) and had slightly higher PVA values (84.4% between \$50,000 and \$119,500).

### ***Highview – Population 15,161\****

Highview, a former County census designated place that is now a Louisville Metro neighborhood, is considered a second-ring suburb. Its street boundaries are varied, making it more difficult to describe geographically, but it roughly follows S. Hurstbourne Parkway to its north and I-265 to its south, with Okolona to its west and Fern Creek to its east. Census data from 2000 shows the racial makeup as predominately white (89.3%), with a small population of African-American (7.8%) and other minority residents (2.9%). Median household income is over 23% higher than the median for Jefferson County's at \$48,700\*.

Our 2007 study revealed that foreclosures in Highview included the newest housing stock of the 3 areas (91% built between 1961 and 2006) with the highest PVA values (91% above \$90,000).

*\*Census data is not normally available at the neighborhood level. To calculate this information, ArcView geographic software was used in conjunction with LOJIC data to partition census tract data into areas recognized as Jefferson County neighborhoods.*

## Loan Characteristics of Foreclosures in 3 Metro Areas

### Owner-occupied versus Investment Properties

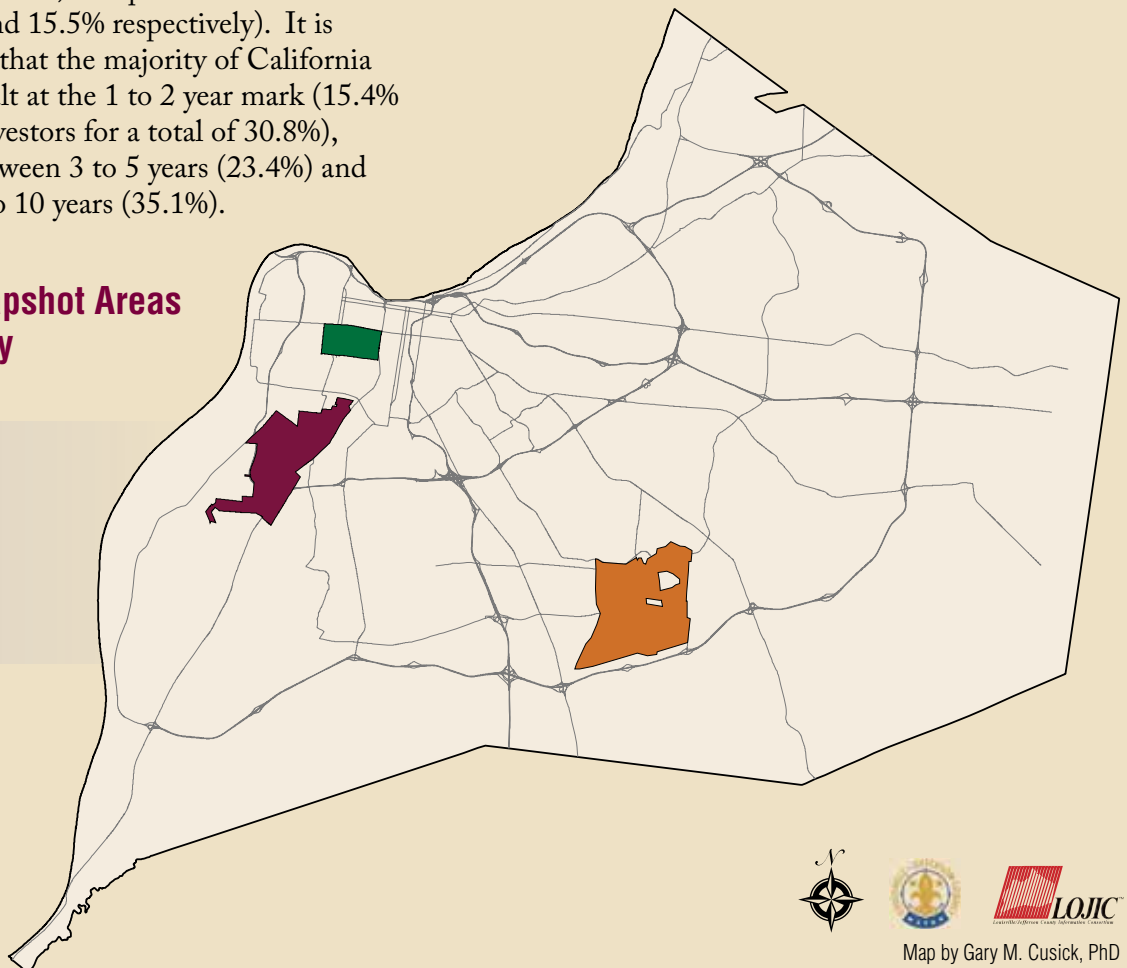
For decades, California has had a significant percentage of rental housing, (estimated at 43.2% per the 2000 Census), which MHC expected to find reflected in the number of investment versus owner-occupied properties in default. It was still surprising however, to learn that investment properties made up more than half of California's foreclosures (51.3%), compared to Highview (4.5%) and Shively (3.9%).

### Length of Ownership

The length of ownership (calculated in this study by subtracting the original property acquisition date from the date the loan went into default) varied considerably among the three areas. Highview was ahead in the percentage of households who had owned their homes for less than 1 year (10.45%) compared to Shively (6.49%) and California (7.69%). Highview also had the highest rate of persons that had owned their homes for more than 10 years (20.90%) compared to California and Shively (15.38% and 15.5% respectively). It is also significant to note that the majority of California owners went into default at the 1 to 2 year mark (15.4% residents and 15.4% investors for a total of 30.8%), Highview residents between 3 to 5 years (23.4%) and Shively residents at 6 to 10 years (35.1%).

### Neighborhood Snapshot Areas in Jefferson County

- California
- Highview
- Shively
- Major Roads



We also observed that the majority (65%) of investment properties in foreclosure in the California neighborhood had been owned less than 5 years.

### Time from Closing Date to Default Date

Our study also examined the period of time between the closing date of the loan in foreclosure and the default date on that loan. It was startling to see the percentages of owners that went into default before their loans were 1 year old. Highview was in the lead at (16.4%), followed by California (15.4%) and Shively (11.7%). Highview also had the lowest rate of loans in default that were over 6 years old (9%), as compared to California (15.4%) and Shively (19.5%).

### Refinanced Loans

We also compared the original acquisition date to the closing date of the loan. For purposes of the study, the loan was counted as refinanced if its closing date was more than 30 days after the original acquisition date. Approximately half of loans in foreclosure in the three neighborhoods were refinanced (California – 48.7%, Shively – 52% and Highview – 52.2%).

## Adjustable Rates & Prepayment Penalties

California residents and owners took the lead with the highest percentages of adjustable rate mortgages (56.4%), compared to Highview (41.9%) and Shively (40.3%). If we look at the number of adjustable rate loans with interest rates higher than 7.5%, we see an even larger divide between California (48.7%) and the other two areas (26.9% and 22.1% respectively). The number of adjustable rates mortgages coupled with prepayment penalties heavily impacted all three areas, with California in the lead (28.2%), followed by Shively (25.97%), then Highview (23.9%). It is also significant to note that some adjustable rate loans in foreclosure in Highview and Shively had 0% interest rates but none of the loans in California had these initial “teaser” rates.

## 1st versus 2nd or 3rd Mortgages

First mortgages were clearly the predominant loans in foreclosure with a tight range between the three areas (Shively at 89.6%, California at 82.1% and Highview at 80.7%).



## CALIFORNIA NEIGHBORHOOD

	Total	Owner Occupied	Investment Properties
<b>No. of Homes in Foreclosures</b>	39	19	20
<b>No. of Survey Participants</b>	2	2	0
<b>Year Home Built</b>			
1900 or earlier	10	5	5
1901 to 1930	21	13	8
1931 to 1960	0	0	0
1961 to 1990	0	0	0
1991 to 2006	7	1	6
Not Available	1	0	1
<b>Current Property Valuation Assessment</b>			
\$0-\$29,999	2	1	1
\$30,000-\$49,999	16	7	9
\$50,000-\$89,999	16	10	6
\$90,000-\$119,999	5	1	4
\$120,000-\$149,999	0	0	0
\$150,000+	0	0	0
<b>Length of Ownership (Acquisition Date to Default Date)</b>			
Less than 1 year	3	3	0
1 year up to 2 years	12	6	6
3 years up to 5 years	10	3	7
6 years up to 10 years	8	3	5
More than 10 years	6	4	2
<b>Time from Closing Date of Loan to Default Date</b>			
Less than 1 year	6	4	2
1 year up to 2 years	16	9	7
3 years up to 5 years	11	4	7
6 years up to 10 years	4	0	4
More than 10 years	2	2	0
<b>Refinanced (Loan Secured more than 30 days after Acquisition Date)</b>			
Yes	19	9	10
No	19	9	10
N/A	1	1	0
<b>1st versus 2nd Mortgages</b>			
1st Mortgages	32	15	17
2nd Mortgages	7	4	3
<b>No. of Fixed Mortgages</b>			
Interest Rate of 7.5% or Lower	11	7	4
Interest Rate Higher than 7.5%	6	4	2
Median Interest Rate	6.89%	6.88%	6.88%
Interest Rate Range	4.00-11.99	4.00-11.29	6.50-11.99
No. with Prepayment Penalties	15	7	8
<b>No. of Adjustable Mortgages</b>			
Interest Rate of 7.5% or Lower	2	0	2
Interest Rate Higher than 7.5%	19	8	11
Interest Rate N/A	1	0	1
Median Interest Rate	9.00%	10.40%	8.25%
Interest Rate Range	7.45-11.75	8.00-11.75	7.45-10.40
No. with Prepayment Penalties	11	5	6
<b>Balloon Payments</b>	2	1	1



## HIGHVIEW NEIGHBORHOOD

	Total	Owner Occupied	Investment Properties
<b>No. of Homes in Foreclosures</b>	67	64	3
<b>No. of Survey Participants</b>	2	2	0
<b>Year Home Built</b>			
1900 or earlier	0	0	0
1901 to 1930	0	0	0
1931 to 1960	6	5	1
1961 to 1990	39	37	2
1991 to 2006	22	22	0
<b>Current Property Valuation Assessment</b>			
\$0-\$29,999	0	0	0
\$30,000-\$49,999	0	0	0
\$50,000-\$89,999	6	5	1
\$90,000-\$119,999	20	19	1
\$120,000-\$149,999	25	24	1
\$150,000+	16	16	0
<b>Length of Ownership (Acquisition Date to Default Date)</b>			
Less than 1 year	7	7	0
1 year up to 2 years	16	15	1
3 years up to 5 years	17	17	0
6 years up to 10 years	13	11	2
More than 10 years	14	14	0
<b>Time from Closing Date to Default Date</b>			
Less than 1 year	11	11	0
1 year up to 2 years	25	24	1
3 years up to 5 years	25	23	2
6 years up to 10 years	4	4	0
More than 10 years	2	2	0
<b>Refinanced (Loan Secured more than 30 days after Acquisition Date)</b>			
Yes	35	33	2
No	28	28	0
N/A	4	3	1
<b>1st versus 2nd Mortgages</b>			
1st Mortgages	54	51	3
2nd Mortgages	11	11	0
3rd Mortgages	2	2	0
<b>No. of Fixed Mortgages</b>	39	37	2
Interest Rate of 7.5% or Lower	20	18	2
Interest Rate Higher than 7.5%	19	19	0
Median Interest Rate	7.37%	7.50%	6.06%
Interest Rate Range	5.38-12.25	5.37-12.25	5.62-6.5
No. with Prepayment Penalties	20	19	1
<b>No. of Adjustable Mortgages</b>	28	27	1
Interest Rate of 7.5% or Lower	9	8	1
Interest Rate Higher than 7.5%	17	17	0
Interest Rate N/A	2	2	0
Median Interest Rate	8.92%	9.06%	7.35%
Interest Rate Range	0.00-12.38	0.00-12.37	7.35
No. with Prepayment Penalties	16	15	1
<b>Balloon Payments</b>	4	4	0

## SHIVELY NEIGHBORHOOD

	Total	Owner Occupied	Investment Properties
<b>No. of Homes in Foreclosures</b>	77	74	3
<b>No. of Survey Participants</b>	1		0
<b>Year Home Built</b>			
1900 or earlier	0	0	0
1901 to 1930	2	2	0
1931 to 1960	55	52	3
1961 to 1990	20	20	0
1991 to 2006	0	0	0
<b>Current Property Valuation Assessment</b>			
\$0-\$29,999	0	0	0
\$30,000-\$49,999	0	0	0
\$50,000-\$89,999	28	25	3
\$90,000-\$119,999	37	37	0
\$120,000-\$149,999	11	11	0
\$150,000+	1	1	0
<b>Length of Ownership (Acquisition Date to Default Date)</b>			
Less than 1 year	5	5	0
1 year up to 2 years	16	15	1
3 years up to 5 years	16	16	0
6 years up to 10 years	27	27	0
More than 10 years	12	10	2
Not Available	1	1	0
<b>Time from Closing Date to Default Date</b>			
Less than 1 year	9	8	1
1 year up to 2 years	31	30	1
3 years up to 5 years	20	19	1
6 years up to 10 years	14	14	0
More than 10 years	1	1	0
Not Available	2	2	0
<b>Refinanced (Loan Secured more than 30 days after Acquisition Date)</b>			
Yes	40	38	2
No	34	33	1
N/A	3	3	0
<b>1st versus 2nd Mortgages</b>			
1st Mortgages	69	66	3
2nd Mortgages	6	6	0
3rd Mortgages	1	1	0
Not Available	1	1	0
<b>No. of Fixed Mortgages</b>	45	43	2
Interest Rate of 7.5% or Lower	18	17	1
Interest Rate Higher than 7.5%	23	22	1
Interest Rate N/A	4	4	0
Median Interest Rate	7.68%	7.63%	8.13%
Interest Rate Range	0.00-17.25	0.00-17.75	6.5-11.39
No. with Prepayment Penalties	32	30	2
<b>No. of Adjustable Mortgages</b>	31	30	1
Interest Rate of 7.5% or Lower	8	8	0
Interest Rate Higher than 7.5%	17	16	1
Interest Rate N/A	6	6	0
Median Interest Rate	7.93%	7.69%	11.38%
Interest Rate Range	0.00-12.10	0.00-12.10	11.38
No. with Prepayment Penalties	20	19	1
Fixed or Adjustable Info N/A	1	1	0
<b>Balloon Payments</b>	5	5	0

# The 2007 Study

## Part II – The Foreclosure Survey

### Impact of Foreclosure to 26 Households

#### Eligibility for Participation & The Survey Process

MHC identified 19 neighborhoods for this in-depth survey. Anyone living in an owner-occupied home in those neighborhoods that had a complaint filed against them at Jefferson Circuit Court between January 1 and June 30, 2007 was eligible to participate. An invitation was sent to the homeowner, who could call to schedule a personal interview. The survey included 125 questions and took between 1 to 2 hours to complete. Each household that agreed to participate received a grocery or gas gift card for their time and effort. The actual survey instrument, and additional details on the neighborhood and participant selection process, and survey results are available online at [www.metrophanhousing.org](http://www.metrophanhousing.org).

*"I just want to help. Maybe someone else can avoid this situation if I talk with you."*

— Survey participant from Okolona

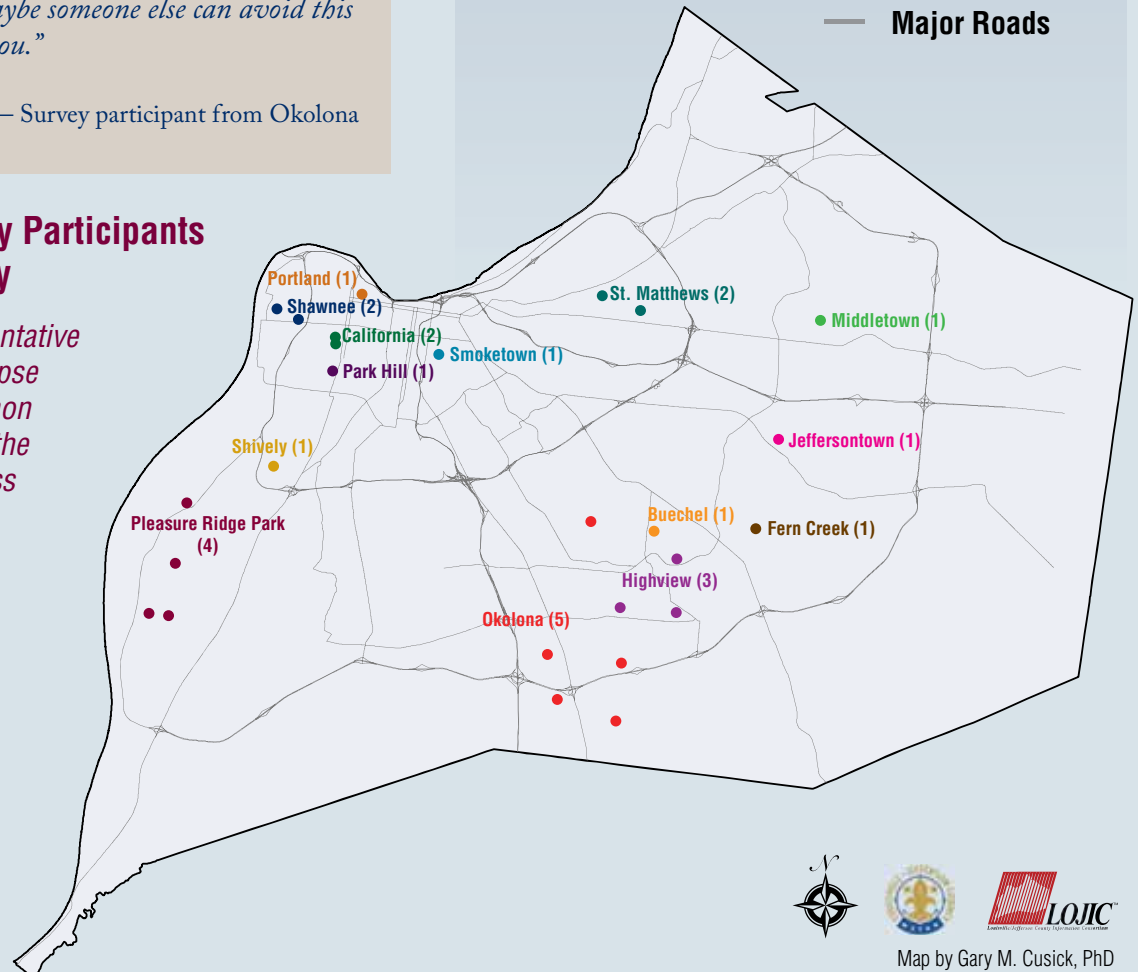
#### Foreclosure Survey Participants in Jefferson County

*We believe this representative sample gives us a glimpse into some of the common circumstances behind the foreclosure crisis across Jefferson County.*

#### Survey Participants and Geographic Location

The 26 households that participated in our survey were evenly distributed as to their geographic location, household demographics, home characteristics and types of loan products used. Survey participants lived in the following Metro areas:

<span style="color: orange;">●</span> Buechel (1)	<span style="color: purple;">●</span> Park Hill (1)
<span style="color: green;">●</span> California (2)	<span style="color: maroon;">●</span> Pleasure Park (4)
<span style="color: brown;">●</span> Fern Creek (1)	<span style="color: orange;">●</span> Portland (1)
<span style="color: purple;">●</span> Highview (3)	<span style="color: teal;">●</span> Saint Matthews (2)
<span style="color: magenta;">●</span> Jeffersontown (1)	<span style="color: blue;">●</span> Shawnee (2)
<span style="color: teal;">●</span> Middletown (1)	<span style="color: yellow;">●</span> Shively (1)
<span style="color: red;">●</span> Okolona (5)	<span style="color: cyan;">●</span> Smoketown – 1
	— Major Roads



Map by Gary M. Cusick, PhD

## Household Demographics

Our participants were roughly three quarters female (19) and one quarter male (7) and ranged in age from 30 to 79 years, with over a quarter age 64 and above (7). Of the women we interviewed, 13 were single heads of households. Almost twice the number of whites (17) participated in the survey as African-Americans (9). Single-person (8) and four-person households (7) were in the majority, with two-person households a close third (5). About one-third of the group (9) was currently married or living with a partner, another third was divorced (9), a substantial number were widowed or widowers (6), and the remainder were single (2).

## Home Characteristics

The majority of survey participants lived in single-family homes (23) and the remaining owned condominiums (3), including one single-family home structured as a condo (with accompanying monthly fees, which the owners noted were not explained to them until closing.)



Homes ranged in size from 730 to 2,220 square feet. Several were relatively new at 10 years old or less (6), or at the other end of the spectrum at 80, 90 and even 100 plus years old (6), though the majority were between 11 and 60 years old (14). While several homeowners described how gas and electric utility bills, (ranging from \$75 to \$300 monthly), or repairs to their homes had taken an unexpected bite out of their budget, the impact of these costs was greater on those with older homes. One survey participant had experienced 4 fires in her 97-year old Shawnee home due to outdated electrical wiring.

## Appraisals

The appraised values of the survey participants' homes ranged from \$54,000 to \$350,000, with a median value of \$95,000. None of the survey participants had arranged for their own appraisals. Slightly over half (14) did not receive copies of their appraisals from their lenders when they purchased their home or when they refinanced, though they generally had an idea of the appraised value. Several of the households we interviewed found that their lenders had obtained inflated appraisals, in many cases resulting in borrowers owing more debt on the house than it's worth (see the industry term *upside down*).



## Homeownership Characteristics

### Length of Ownership

We found that the time period between when our survey participants purchased their homes and when they faced foreclosure varied widely. A significant number had lived in their homes for less than 5 years (12) and 1 of those for only 11 months. Nearly one quarter of households (6) however, had lived in their homes for 15 or more years. It is also significant to note that a small number of survey participants had inherited their family home (3).

### First-Time Homebuyers & Homeownership Counseling

Just over half of the households we interviewed were first time homeowners (14). Only 3 of the 26 had attended pre-purchase homeownership counseling as required by the terms of their mortgage agreements. The majority however, said they were not required to attend or were even aware of homeownership counseling programs (15).



## Loan Characteristics

The table below shows some of the significant characteristics of our survey participants' mortgage loans at the time of the foreclosure action.

### Refinanced Loans

Exactly half of the 1st mortgages in foreclosure were refinanced loans (13). The length of time between when the survey participants originally purchased their homes and when they obtained the loan in foreclosure ranged from less than 1 year to 41 years. Two of the survey participants had previously paid off their original mortgages before they refinanced.

Survey participants gave a variety of reasons for refinancing including debt consolidation (5), home improvements (5), to lower interest rates (6), to repay student loans (1), to buy cars (1), for living expenses after an illness (1), to take a trip (1), or a combination of the above. Most of the households who stated they refinanced to obtain lower interest rates, did so in conjunction with cashing in on the equity in the home (4).

*"My remodeler arranged for my refinancing and I know I told them I wanted a fixed rate loan. Then two years later I get a letter [from my loan company] telling me my rates were going up. It's at 11.5% now, 3% more than when I started....I still kept up with those higher payments though until I was laid off my job a couple months ago....I can't get another loan because they tell me my house is worth \$20,000 less than what the appraisal said when I refinanced, so now I owe more than what my house is worth. I'm 73 years old, where am I going to go?"*

— Survey participant from Portland

The households who had refinanced their loans found their brokers or lenders on the internet (1), through television or phone book ads (3), referrals from friends or acquaintances (4), or through a remodeler (1). Two survey participants said they shopped for the best deal among multiple lenders. Two others said they were contacted by lenders about refinancing, and one woman described how the lender "called me a million times on the phone and then told me not to tell anyone he'd contacted me that way."

### SURVEY PARTICIPANTS: LOAN CHARACTERISTICS, INCOME AND PAYMENT INFORMATION

Zip Code	Race	Refinanced	Time Between Purchase and Refinancing*	First Loan Fixed	Adj	Interest Rate	Prepayment Terms	Income 2006	Income 2007	Mortgage Payment(s)	Insurance/Taxes Escrowed - Monthly Amount	Total Payment w/Escrow
40228	B	No			•	11.13%	1Y/3%, 2Y/2%	61.1K	47.3K	1385	No - \$74/\$116	1575
40210	B	No		•		8.99%	None	NA	NA	397	No - \$0/\$52	449
40210	B	No			•	8.75%	2Y/6m	40K	17.4K	534.96/171.60	No - ??	706.56
40291	W	No		•		6.63%	None	27K	24.5K	875	Yes	875
40219	W	Yes	3 yrs	•		8.95%*	2Y/5%	80K+	30K	1430/510	No - \$60/\$208	2208
40291	W	No			•	8.25%	2Y/6m	36.4K	36.1K	1097	Yes	1097
40228	W	Yes	10 yrs.	•		6%	None	5-9.9K	26.2K	625	Yes	625
40299	W	Yes	8 yrs.	•		7.45%	3Y/20%6m	55K	14.4K	1100	Yes	1100
40223	W	Yes	Less than 1 yr.	•		8.99	Don't know	30-39K	30K	2251/325	No - \$125/\$292	2993
40218	B	No		•		8.50%	None	13.9K	25.9-27.5K	527/196	Yes	723
40219	W	Yes	1 yr.	•		8.75%	5Y/5%	Less than 5K	2.4-4.8K	500/650/796.53	No - \$67/\$120	2133.53
40229	W	Yes	12 yrs.		•	8.68	None	56.3K	58.1K	900	Yes	900
40214	W	Yes	35 yrs.	•		9.90%	5Y/20%	15.5K	19.4K	383	No - \$32/\$75	490
40229	W	Yes	14 yrs.	•		7.50%	None	30-39.9K	31.5K	635/287	Yes	922
40210	B	Yes	4 yrs.	•		8.9	3Y/6m	30-39.9K	37.2K	?/440	No - \$0/\$19	459
40258	B	No			•	11.50%	None	48K	50.4K (Net)	1700	No - \$67/\$120	1887
40216	W	No		•		6.25%	None	15-19.9K	18.7K	777	Yes	777
40258	W	Yes	41 yrs.		•	6.75%	2Y/6m	24.6K	24.7K	656/224	No - \$44/\$67	991
40258	W	No			•	8.75%	None	24K	30.4K	597/94	No - \$37/\$67	795
40203	W	Yes	16 yrs.		•	11.50%	2Y/6m	21.6K	16.9K	614.42	No - \$61/\$.42	675.84
40207	W	No			•	8.50%	None	40-49K	40K	381	Yes	381
40207	W	Yes	2 yrs.		•	6.75%	3Y/20%6m	70-79.9K	72.8K	2081	Yes	2081
40211	B	Yes	21 yrs.	•		7.50%	None	26.4K	18.7K	667	No - \$80/\$0	747
40211	B	No			•	10.50%	Yes - not sure of terms	20-29.9	38400K	1000	Yes	1000
40216	W	No			•	8.50%	2Y/20%6m	45600	49200	1100	No - \$117/\$120	1337
40203	B	No		•		6%	None	15 - 19.9K	3.1K	386.8	Yes	386.8

## ***Mortgages in Foreclosure***

All 26 of the survey participants' 1st mortgages were in foreclosure. While 10 survey participants also had 2nd mortgages, only 2 of those were in foreclosure. One survey participant also had a 3rd mortgage.

## ***1st Mortgages - Fixed versus Adjustable Rate Loans***

For 1st mortgages, the group was split roughly in half by fixed rate (13) and adjustable rate mortgages (12). Only one survey participant had a balloon payment mortgage.

African American households were nearly evenly divided by fixed rate (5) versus adjustable rate loans (4). White households had just slightly more adjustable rate loans (9) than fixed (7).

## ***1st Mortgages - Interest Rates for Fixed versus Adjustable Rate Loans***

Interest rates for the 13 survey participants we interviewed with fixed rate mortgages ranged between 6% and 9.9%, with a median value of 7.5%. Rates for the 12 survey participants with adjustable rate mortgages were higher, ranging between 6.75% and 11.5%, with a median value of 8.72%. The interest rate for the one household with a balloon loan was 8.95%.

Interest rates for the 4 African American households with adjustable rate mortgages ranged from 8.75% to 11.5% with a median value of 10.82%. Rates for the 9 white households ranged between 6.75% and 11.5% with a median value of 8.62%.

Interest rates for the 5 African American households with fixed rate mortgages ranged from 6% to 8.99%, with a median of 8.5%. The fixed interest rate range for the 7 white households was 6.25% to 8.99%, with a median of 7.45%.

## ***The PITI Assumption***

### ***Principal – Interest – Taxes - Insurance***

For decades it was the convention that these four elements were included in mortgage payments. Some people even thought it was the law. Therefore it was alarming to learn through our interviews that 14 of the 26 survey participants' mortgage payments did not include escrow for insurance and/or property taxes. Most of these households described how they were not made aware of these loan details until their closings and some said they weren't told then.

When we calculated these additional costs on a monthly basis, homeowners insurance ranged from \$32 to \$125 per month and property taxes from \$19 to \$292. (Several households had homestead exemptions (4) or disability exemptions (4), which provided some tax relief.) For the households where we had exact income information, this amounted to increases between 4.3% and 28% on top of their mortgage payments. If we look at this factor by race, two-thirds of the mortgage loans to African-Americans did not include escrow accounts (66.7%), as compared to just under half for white households (47.1%).

When we adjusted for insurance and taxes as part of the total monthly mortgage payment, we found that survey participants spent from 19% to 48% of their income on those expenses during 2006. In 2007, this figure increased considerably in several cases (7), and took nearly the entirety of two households income at 88% and 92% respectively.

For additional information on the loan elements of our survey participants, including loan characteristics for 2nd mortgages and a list of the mortgage lenders that had prepayment penalties, adjustable rates, or taxes and insurance excluded from the loan payment, see MHC's website at [www.metropolitanhousing.org](http://www.metropolitanhousing.org).



## 1st Mortgages - Prepayment penalties

Half of our survey participants (13) had prepayment penalties on their 1st mortgages. Prepayment terms varied widely but over half were in effect for 2 years (7) and a couple as long as 5 years (2). Two-thirds of the adjustable rate loans had prepayment penalties (8 of 12) compared to roughly one-third of the fixed rates (5 of 14).

Some survey participants didn't discover their prepayment penalties until they tried to refinance. They voiced how they felt deliberately misled by their lenders, who had told them not to worry about high rates or the interest adjustments they'd be faced with – that they could “just refinance” after improving their credit scores or whatever hampered their ability to get better terms initially. In many cases, the hefty prepayment penalties negated any benefits of refinancing before their terms expired.

## Income Changes, Payments as Percentage of Income & Escrow for Home Insurance and Property Taxes

During 2007 the annual household income for our survey participants ranged from under \$5,000 to \$72,800. Over half the households (14), had experienced income losses from 2006 to 2007, a factor they cited as contributing to their foreclosure action. For households that provided us with exact income figures, these decreases vacillated widely from less than 1% to as much as 74%. Several households reported increases, but these were not as dramatic as the losses, ranging from less than 1% to 25%.

## Access to Supportive Services & Legal Assistance

*“If I can't make my mortgage payments, how on earth can I afford an attorney?”*

— Survey participant from Highview

Another function of our survey process was to provide information on the support services available to those facing foreclosure. The good news is that a substantial number of the households we interviewed took advantage of those services: several are currently on the waiting list for the Louisville Metro Department of Housing and Family Service's upcoming Foreclosure Intervention Assistance program, participating in foreclosure counseling programs at the Housing Partnership Inc. and/or working with attorneys at the Legal Aid Society. (Almost half of the survey participants were not receiving legal assistance at the time of their interview [12], and cited their inability to pay the retainer as the primary reason.)

Others joined the Making Connections Network, contacted Project Warm for winterization assistance or went to VITA tax sites to get free help preparing their tax returns. While we can't be certain because of the small size of our survey group, it appears that when a personal intervention took place, households were able to use services that helped them keep their homes or work out a plan with their lenders for a “short sale.” At the printing of this report, only 2 survey participants lost their homes through court ordered sales.





## Household Financial Characteristics

### Credit Scores, Savings and Debt

Very few of our survey participants knew both their current credit score and their score at the time they purchased their home. Only two knew both scores, nine knew neither score and the remainder had known at one time but could not recall the exact score, or knew only one of the scores.

Some of our survey participants had purchased their homes with little or no debt and substantial savings. Others had just the reverse situation – no savings and high levels of debt, which definitely had an impact upon their choice of financial products. At the time of the interview, the majority of survey participants had depleted all their savings (21), however two still had savings between \$1,000 and \$7,500.

#### SURVEY PARTICIPANTS CREDIT SCORES, SAVINGS AND DEBT

Knew Credit Score at Time of Purchase	Knew Current Credit Score	Savings at Time of Purchase	Debt at Time of Purchase
Yes - 820	Yes - 620-674	\$10,000 plus	\$6,000
Yes - 670	Yes - 580	None	\$7,500 to \$9,999
Yes - but NA	Yes - up to 559	None	\$5,000
Yes - but NA	Yes - up to 559	None	\$10,000 plus
Yes - but NA	Yes - up to 559	\$1,000 to \$2,499	\$500 to \$999
Yes - 700	No	\$1,000 to \$2,499	None
Yes - but NA	No	\$10,000	None
Yes - but NA	No	None	\$7,500 to \$9,999
Yes - but NA	No	Up to \$500	\$3,000
Yes - but NA	No	\$1,000 to \$2,499	\$7,500 to \$9,999
Yes - but NA	No	\$7,000 to \$9,999	\$10,000 plus
Yes - 650	No	None	\$1,000 to \$2,499
Yes - in 500's	No	None	\$5,000 to \$7,500
No	Yes - 560-619	None	\$2,600
No	Yes - 620-674	None	Yes but \$ unknown
No	Yes - up to 559	None	\$1,000 to \$2,499
No	Yes - up to 559	None	None
No	No	None	\$100,000
No	No	\$10,000 plus	None
No	No	None	\$1,000 to \$2,499
No	No	NA	\$2,500 to \$4,999
No	No	None	None
No	No	None	\$10,000 plus
No	No	\$1,400	\$5,000 to \$7,500
No	No	None	\$500 to \$999
No	No	NA	NA

### Loan Servicing

All but one of the survey participants voiced frustration and/or bewilderment about working with the lenders on their foreclosure action. Everyone had contacted his or her mortgage company when they began to have difficulties making payments, though one woman told us her lender refused to talk with her. Eight thought they had payment plans worked out with their lenders and were surprised to receive the letters from their lenders notifying them of their intent to foreclose, sometimes adding thousands of dollars in legal fees and penalties to the arrears they now owed. Two survey participants had tried to work out payment plans but either couldn't get the lender to respond or to agree to terms they felt they could meet.

Survey participants voiced many complaints about the servicing of their loans, both prior to and during the foreclosure process. One woman told us her lender was erroneously escrowing funds for payments she made directly to her insurance company. She had written and faxed them documentation of her payments on multiple occasions and finally as a protest, refused to make her house payment until they corrected their mistake. While she did receive a letter from her lender within two months, it was notifying her that she was now in foreclosure. Another survey participant who lived in a 6th class city said her lender had escrowed funds for taxes but had not paid them in 3 years.

Having a reliable means of communication with their lenders as they tried to resolve their delinquencies or develop work out plans was another source of stress for our survey participants. Only seven had been able to work with one agent at their mortgage company. The remainder had been shuffled around from person to person, or department to department. Some said their lenders' representatives refused to give out their names. Several households we interviewed said they had difficulty transacting business because they could not understand the loan servicer's pronunciation. Many said they had tried to make payments but had them returned, and were confused as to what to do next.

## Factors Contributing to Foreclosure

The story behind why each household was facing foreclosure was rarely simple. Usually multiple factors were at play, some building up over many years. A few of our survey participants had a history of late payments and a couple had even previously averted foreclosure. Others had stellar credit and payment histories, and were hit suddenly with a life event that derailed their ability to make their mortgage payments. Again and again, we heard about the following issues:

- ▶ **Health issues and medical costs** – chronic or acute personal illness; an accident or injury, sometimes resulting in permanent disability; health issues or disability of another family member, sometimes requiring full-time caregiving; high out-of-pocket health insurance or medical expenses; loss of health insurance benefits through job loss or divorce; serious depression, often accompanied by another life changing event or transition; personal struggle with addictions;
- ▶ **Death** – the loss of a family member who had contributed income to the household; funeral expenses
- ▶ **Divorce or break-up of a long-term relationship** – drop in household income due to end of marriage or relationship; liability for debts of an ex-spouse
- ▶ **Other changes in the household** – birth of a child or grandchild; elderly parents or siblings joining the household, sometimes combined with caregiving responsibilities; adult children returning home, often with young children; assuming custody of a grandchild or child of another family member; dependants who had previously contributed income to the household leaving to go to school or to establish their own household;
- ▶ **Income changes** – job loss due to company downsizing; job change with decreased earnings; loss of bonuses; companies going out of business owing employees; for the self employed – cash flow difficulties with large accounts, customers going out of business without paying and employee embezzlement resulting in company closure;
- ▶ **Property values** – investing more in the property than its value, sometimes in conjunction with unscrupulous or shoddy remodeling practices; purchasing a new home in a development that has questionable price points and/or high rate of foreclosures; drop in home value due to negative changes in or near the neighborhood;

- ▶ **Abusive, deceptive and/or predatory lending practices** – 100% financing, 80/20 loans or being encouraged to put down minimum down payments; extraordinary closing costs; unclear elements in loans such as adjustable rates instead of fixed, prepayment penalties, insurance and taxes excluded from payment; inflated appraisal values, especially in refinancing situations; high pressure refinancing sales calls; being encouraged to take out all their equity when refinancing for non-essential purchases.
- ▶ **High expense or debt levels** – extraordinary transportation costs – driving vehicles with low gasoline mileage and/or substantial maintenance needs, jobs requiring extensive non-reimbursed driving or commuting, having a number of cars in the household; high utility costs due to poorly insulated home or energy inefficient elements or systems; extensive deferred maintenance needs or a household disaster such as a fire; high communications related expenses – cell phones, internet, cable television; little or no savings and high levels of debt; financially naïve or lacking money management skills; excessive credit card bills; and using equity in home to pay ongoing monthly expenses.

Age did seem to be related to the above factors. For the 14 survey participants over age 50, death, issues related to dependants, disability and/or other health issues were more often the precipitating factors behind foreclosure. For the 12 survey participants under 50, foreclosure was frequently related to a drop of income, a business setback, overextending themselves on their loans or the inability to maintain the home due to divorce. There was however, some overlap of these factors in both age groups.



Mortgage Lending Issues

Require responsible lending –

- ▶ Income must be verified and actual
- ▶ Repayment ability based on maximum payment for adjustable mortgages

Hold all parties accountable –

- ▶ Establish that the broker has a fiduciary duty to the borrower
- ▶ Require responsible and responsive loan servicing
- ▶ Create accountability to borrowers for fraudulent appraisals

Help families in danger of losing their homes –

- ▶ Establish a loan and/or grant program to assist borrowers in negotiating with lenders
- ▶ Establish a homeowner protection center to assist with counseling and loss mitigation

Call to Action

Legislative Reforms

*MHC advocates for legislative reforms for responsible and appropriate lending, while still providing lower-income borrowers access to mortgage products that are responsive to their needs.*

For most of us, purchasing a home is an infrequent event and the largest financial transaction we will undertake, so it is often accompanied by a certain amount of trepidation. Likewise, mortgage lenders assume considerable risk and many unknowns when they enter into loan agreements. As loan practices and products have evolved, it has led to new difficulties for both parties. Lenders draft loan documents to ensure their own protection, but borrowers are not as well protected and generally do not have a legal advocate at the closing table representing their interests.

Preventing egregious and abusive practices is not just right, it is sound financial practice. With the advent of “bundled” mortgages as a financial investment, Wall Street became inextricably mired in the consequences of high rates of foreclosure. In fact, the ability to create “bundled” investment products drove much

Health Care Costs

Survey participants were asked to describe the factors they believed resulted in their foreclosure action. While change in employment status ranked first, medical expenses or health-related issues were a close second. Survey participants’ monthly out-of-pocket medical expenses ranged from \$20 up to \$1,200, with an average of nearly \$300. This figure would be substantially higher if several had not chosen to forgo health insurance, or weren’t able to use Medicaid benefits and other prescription assistance plans to meet their health needs.

Change in employment status .....	14
Medical expenses or health issues.....	13
Change in household.....	7
Housing costs too high for household income.....	6
Deceptive or otherwise fraudulent lending practices .....	6
Other.....	5
Unexpected expense(s) other than home maintenance .....	4
Major maintenance or repair expenses on the home .....	2
Judgment lien .....	1

of the lending industry to devise and sell what are now termed “exotic” mortgages. The fallout from these failed mortgages is reverberating through every level of our credit market, negatively affecting both borrowers and investors alike.

MHC advocates sound and reasonable financial practices in making affordable and appropriate mortgage products available to lower-income borrowers. First and foremost among these sound financial practices should be verification of the borrower’s income. It is startling that this is not currently an industry standard in all mortgage lending. Without verification, the borrower’s personal income may be overstated to secure loans larger than they can possibly repay. Mandating verification will help ensure that borrowers loan obligations are affordable and that lenders recoup their investments.

*“At first I was turned down for a loan because I’m unemployed and my household income was too low, so my broker told me to make up a job and turn it in again.”*

— Survey participant from Shawnee



Many loan features in the sub-prime lending market have legitimate scenarios in which they work. However, these elements have also been used to exploit borrowers. Since mortgage brokers currently have no fiduciary duty to borrowers, they can offer loans with interest rates higher than the rates the borrower's legitimate qualifications warrant. The broker earns a fee in addition to the standard broker fee when this happens, typically appearing as a 'yield spread premium' in closing documents. While borrowers can theoretically bargain for additional benefits, such as rolling all non-recurring closing costs into the loan in exchange for higher interest rates, the abuse has been that borrowers often receive nothing in exchange for the higher interest rates. Although brokers are typically paid by the borrower, brokers lack of fiduciary responsibility to borrowers permits them to solely represent their own financial interests in the transactions. Mortgage brokers must have a fiduciary duty to borrowers and present them with the mortgage package that best suits their needs and reflects their credit standing.



Sometimes artificially low *teaser rates* are used to entice borrowers into loans that will increase significantly once the introductory rate expires. Borrowers are given payment information to gauge the year in and year out affordability of their loans based upon these temporary interest rates. Instead, lenders should provide borrowers with both initial payment amounts and projections for future payments reflecting the higher interest rates that can apply during the later years of their loan. *Debt-to-income ratios* are also calculated based upon these *teaser rates*. Instead, *debt-to-income ratios* should also be based on the higher payment levels.

Prepayment penalties prevent people from refinancing high cost loans. The recent Federal reform that will make prepayment penalties disappear before loan interest rates reset is a step in the right direction toward eradicating this loan practice.

Our survey found that inflated appraisals were part of the abusive practices and resulted in people owing more on their home than its actual value. While appraisers can be brought up on criminal charges, a more efficient and less dramatic solution would be creating a direct civil cause of action between the borrower and an appraiser that engages in fraudulent practices.



MHC found that most survey participants who had questionable features in their loans were not aware of those features until the closing, and some not even then. Whether their confusion resulted from the deliberate intent of the lender or as an incidental result of the transaction, the fact remains that as mortgage terms get more complex, the less the borrower understands. New requirements need to be included that make loan terms explicitly understandable and agreed upon by the borrower. Prior closing requirements did not contemplate wholesale use of mortgage products with teaser rates, pre-payment penalties, yield spread premiums, exclusion of previously normal elements of a mortgage payment (home insurance and property taxes), balloon payments and more.

Advocating for the above reforms, that keep the mortgage lending industry accountable to borrowers, would restore credibility to a once very solid and reputable industry.

## Homeowner Protection Programs

*MHC advocates for expanded programs to help those in mortgages they cannot afford including refinancing opportunities, loans/grants to assist borrowers in negotiating with lenders, loan servicing assistance, counseling and other intervention programs, and relief from pending interest rate increases.*

Supporting households in crisis is good for families, good for neighborhoods and good financial policy. It will take intervention as well as prevention programs to deal with the mounting foreclosure crisis. As described in **The Foreclosure Survey** section of this report, the use of services amongst our survey participants went up dramatically once a household was informed of available resources. Therefore, public awareness campaigns and other outreach efforts should be used to promote educational services and connect borrowers in default or foreclosure to these services.

A specific set of protocols should be adopted to offer households in crisis access to affordable refinancing options and financial assistance as well as emotional and financial counseling. Counseling programs should also acknowledge that patience is a component of becoming and remaining a homeowner. Borrowers who are facing foreclosure as a result of abusive or predatory loans need access to responsible refinancing products. These products might combine loans and grants to help those households already burdened with high debt and resulting low credit scores. Counselors should be able to work with loan servicers on behalf of borrowers at all stages of default. Home protection programs can work to craft agreements with lenders to create changes in loan servicing and focus on foreclosure prevention.



Our survey found that some of the contributing factors in foreclosure include high health care costs, job loss and underemployment. Housing and foreclosure counselors should have access to job training referral as well as medical debt negotiation tools. While providing clear information during the loan negotiating process is a major first step toward preparing borrowers to be successful homeowners, other types of family and community education efforts are also essential. Furthermore, advocates for working families can focus on ways to alleviate financial burdens by addressing access to health insurance and living wage employment.

MHC applauds the efforts, both locally and nationally, to provide relief from escalating interest rates, to create affordable fixed-rate refinancing options for persons with troubled mortgages and to provide financial assistance to borrowers facing temporary financial setbacks who are in danger of losing their homes.

## Neighborhood Planning

*MHC advocates for community discussions, beginning with high impact foreclosure neighborhoods, which will help stabilize the quality of life in those neighborhoods and address their vacant housing stock and dropping property values.*

As highlighted in this report, the foreclosure crisis has an impact on neighborhoods throughout Louisville Metro. One specific aspect we need to address is how a surge of foreclosures in a particular area will affect other residents and the neighborhood itself.

No magic bullet exists to preserve neighborhoods from the onslaught of foreclosures, but discussing the problem and working on solutions at the neighborhood level is imperative.

A next step in this area would be researching best practices from other communities and using them to start these discussions.

Another aspect of this crisis, clearly evidenced in the west end of Louisville, is the high percentage of rental/investor properties in foreclosure. Therefore, in areas with high numbers of rental properties, strategies must also be developed to address investment properties. Foreclosure of these units can adversely affect these communities at an even faster pace via multi-unit properties with multiple resident dislocation and multi-property owners failing to meet their loan obligations.

Foreclosures will continue to affect our community and our country. The information contained in this study gives Louisville Metro an advantage in addressing the problem now and in the future.



# Appendix

## Key Definitions

**1-4 Family Rider** – a document within the mortgage that usually indicates the property is a multi-family building, which was used in this study as indicator of an investment property.

**1st Ring Suburbs and Urban Core** – in Louisville, the area inside the I-264/Watterson Expressway

**2nd Suburban Ring** – in Louisville, the area between the I-264/Watterson Expressway and I-265/the Gene Snyder Expressway

**3rd Suburban Ring** – in Louisville, the area between the I-265/the Gene Snyder Expressway and the Jefferson County line.

**Chapter 13 Bankruptcy** – a legal recourse that allows a person or business to clear any debt obligations by reorganizing the payment amount and payment schedule of those debt obligations. A bankruptcy is filed in federal court and stalls the foreclosure process. Once the bankruptcy is filed, the federal court takes exclusive jurisdiction over the property, not allowing a lender to proceed with the foreclosure in state court until the bankruptcy proceedings are completed or the Kentucky Western Bankruptcy Court in Louisville allows the lender to continue with the foreclosure.



**Complaints Filed/Files a Complaint/Complaint Filing** – the number of foreclosure cases filed in 2007 by lenders seeking repayment of their loans or the sale of the borrower's property.

**Debt-to-Income Ratios** – the percentage of a person's monthly income spent repaying debt.

**Default due to non-payment** – failure to fulfill the terms agreed to in the mortgage. There are several actions that the mortgage will usually stipulate as a default, such as filing bankruptcy, failure to occupy the premises, or non-payment. Default due to non-payment occurs when the borrower fails to make a mortgage payment on time.

**Default Judgment** – if the borrower fails to respond to the lender's complaint within 20 days, the lender may file a motion for default judgment, which resolves the court portion of the case in favor of the lender. At this point, the case will be sent to the Commissioner's Office for sale.

**Foreclosure** – a process that allows a lender to recover the amount owed on a defaulted loan by selling or taking ownership (possession) of the property securing the loan. The foreclosure process begins when a borrower/owner defaults on loan payments and the lender files the necessary documents to begin the foreclosure proceedings.



**Foreclosure Auction** – a public sale of property to recover a debt owed by the owners of the property. Also called a Trustee Sale, Sale of Foreclosed Property, or, if property is being foreclosed for tax reasons, Tax Lien Sale. This is a public auction historically held on the county courthouse steps. In Jefferson County it is held on the 1st Floor of 514 W. Liberty Street. Anyone can make the opening bid. If the lender makes the opening bid and they are owed more than 2/3 of the appraised value, they will often open the bidding at that value to defeat the right of redemption. The lender may then bid up to the amount of their judgment if they want to (this will include the amount owed plus interest, fees and expenses of the sale), because the lender will get credit against their bid for the amounts they are owed in the judgment. Finally, if there are no bids higher than the opening bid, the opening bidder wins (this is not necessarily the lender).



**Legal Aid Society of Louisville** – an organization that provide free legal advice and/or representation to low-income persons with civil law problems.

**Lis Pendens (LIS)** – a publicly recorded notice of a pending lawsuit against a property owner that may affect the ownership of a property.

**LOJIC (the Louisville/Jefferson County Information Consortium)** - LOJIC is a computer and software system that provides extensive and comprehensive maps as well as detailed property information for the entire Louisville/Jefferson County area.

**Making Connections Network** – a ten-year initiative of The Annie E. Casey Foundation designed to catalyze change, close the gap and improve the life opportunities of families and children in four inner-city neighborhoods: Smoketown, Shelby Park, California, and Phoenix Hill.

**Notice of Default (NOD)** – once the borrower defaults, the lender may immediately send the borrower a notice of default. However, the lender usually waits to send notice until payment is at least 30 days past due. This notice informs the borrower that they are in default and that the lender intends to accelerate the entire balance of the note. Lenders usually begin sending letters indicating their intent to foreclose after about 60 days if the payment is still past due and will usually refer the loan to their foreclosure attorneys at 60-90 days past due.

**Notice of Sale (NTS or NFS)** – a document announcing the public sale of a property to recover a debt owed by the owner of the property. The borrower and all other parties affected by the sale will receive, by registered mail or by delivery from the Sheriff, the Notice of Sale or Notice to Foreclose. The Commissioner places sale bills on the property, which are paper sale notices that appear in the court files and specify the date, time, and location of the sale. The information will also be recorded at the Commissioner's Office ([jcomm.org](http://jcomm.org)) and published in the local newspaper three weeks prior to the sale.

**Order of Sale** – After a judgment of foreclosure is entered against the owner of the property, the judge may then order the sale of the property secured by the loan.

**Postponement** – An announcement – usually made at the time and place of the originally scheduled foreclosure sale – that establishes a new date and time for the sale.

**Reinstatement** – the stoppage of foreclosure proceedings and return to the original terms of a loan that occurs when a borrower pays off the amount in default on the loan to bring the loan payments current. In Kentucky, the borrower's chance to reinstate ends before the public foreclosure sale.



**Short Sale** – a sale of a house in which the proceeds fall short of what the owner still owes on the mortgage. Many lenders will agree to accept the proceeds of a short sale and forgive the rest of what is owed on the mortgage when the owner cannot make the mortgage payments. By accepting a short sale, the lender can avoid a lengthy and costly foreclosure and the owner is able to pay off the loan for less than what he owes.

**Summary Judgment** – either the borrower or lender may file a motion for summary judgment before the case goes to trial. The party who files the motion for summary judgment claims that the facts are so far on their side that a trial is not necessary to resolve the case.

**Teaser rates** – a very low but temporary introductory rate on an adjustable rate mortgage.

**Upside Down Mortgage** – owing more on a home's loan(s) than its value.

**Work Out Plan** – mortgages state that the borrower has the right to reinstatement before the foreclosure sale. The borrower may contact the lender to find out about the reinstatement amount and devise a plan with the lender to modify or reinstall the loan and allow the borrower to continue making payments at the adjusted loan terms.

## Acknowledgements

This special report was co-authored by Cathy Hinko, Executive Director of the Metropolitan Housing Coalition and Kathleen O'Neil, Consultant. MHC would like to thank the *Making Connections Network*, the Kentucky Housing Corporation and the MHC board for providing funding and support for this study.

Former MHC director Jane Walsh began the MHC work on foreclosures in 2003 and has helped guide this work through its stages over the years. MHC and Louisville are indebted to her for our community's unprecedented understanding of this crisis. Her assistance with editing this report is also greatly appreciated.

Thanks to Dana Jackson and Jennie Jean Davidson of the Making Connections Network for their work on this study.

Special thanks to Stewart Pope, Advocacy Director with the Legal Aid Society, John Borders and Jennifer Fields of Borders and Borders Attorneys for their guidance on the court research and legal process. Many thanks to the Legal Aid Society, Christy McCravy and the Housing Partnership Inc. and Louisville Metro Department of Housing for providing special services to survey participants in conjunction with this study.

MHC is also grateful for courthouse research assistance from Chris Deinlein, Beth Jones, Chris Pope and Greg Welsh. Thanks to Tina Frasher for data analysis, Gary M. Cusick, PhD for data analysis and map production, survey interviewers Robin Burke, Beth Jones, and Susan Wood, Kathy Morris for support services and Jim Busch for editing assistance.

MHC's sincerest gratitude goes to the 26 survey participants who were willing to share the struggles they have personally encountered during the foreclosure process.

MHC is also grateful to Margaret McGinnis at the Community Resource Network and Making Connections Louisville for sharing data on the 2005 foreclosure project, and for special assistance from Jane Poole with LOJIC and Debbi Rothman and Anna Wallace with the Louisville Metro Department of Housing and Family Services.

Printing by Welch Printing Company

Photography by James Calvert

Design by Rob Gorstein Graphic Design





Metropolitan Housing Coalition  
P.O. Box 4533  
Louisville, KY 40204

(502)584-6858

www.metropolitanhousing.org

NON-PROFIT ORG.  
US POSTAGE  
**PAID**  
LOUISVILLE, KY  
PERMIT #1878

## MISSION

The Metropolitan Housing Coalition exists to bring together this community's private and public resources to provide equitable, accessible housing opportunities for all people through advocacy, public education and support for affordable housing providers.

This study and report is sponsored by the Making Connections Network and the Kentucky Housing Corporation.